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ABSTRACT

Middle school students enjoy personal finance because it involves making decisions about their lives, both in the present and in the future. This teacher's guide and student workouts package consists of 17 economics lessons for students at grades 6-8 that are divided into 5 theme areas: the economic way of thinking; earning an income; saving; spending and using credit; and managing money. Lessons include making better decisions for earning income, spending, borrowing, investing, and managing money. The guide's overall theme is financial fitness and the development of knowledge for use in everyday life. Each lesson includes a description, background, a list of necessary overhead transparencies and other items, economic and personal finance concepts, time required for the lesson, warm up ideas, exercises, cool down ideas, assessments, and other training equipment. A mathematics matrix, an economics matrix, and a personal finance matrix are provided at the beginning of the guide. (BT)

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ED 460 925

Shaping up Your Financial Future, Grades 6-8

Teacher Guide
[and]
Student Workouts,

Financial Fitness for Life

Barbara Flowers
Sheryl Szot Gallaher

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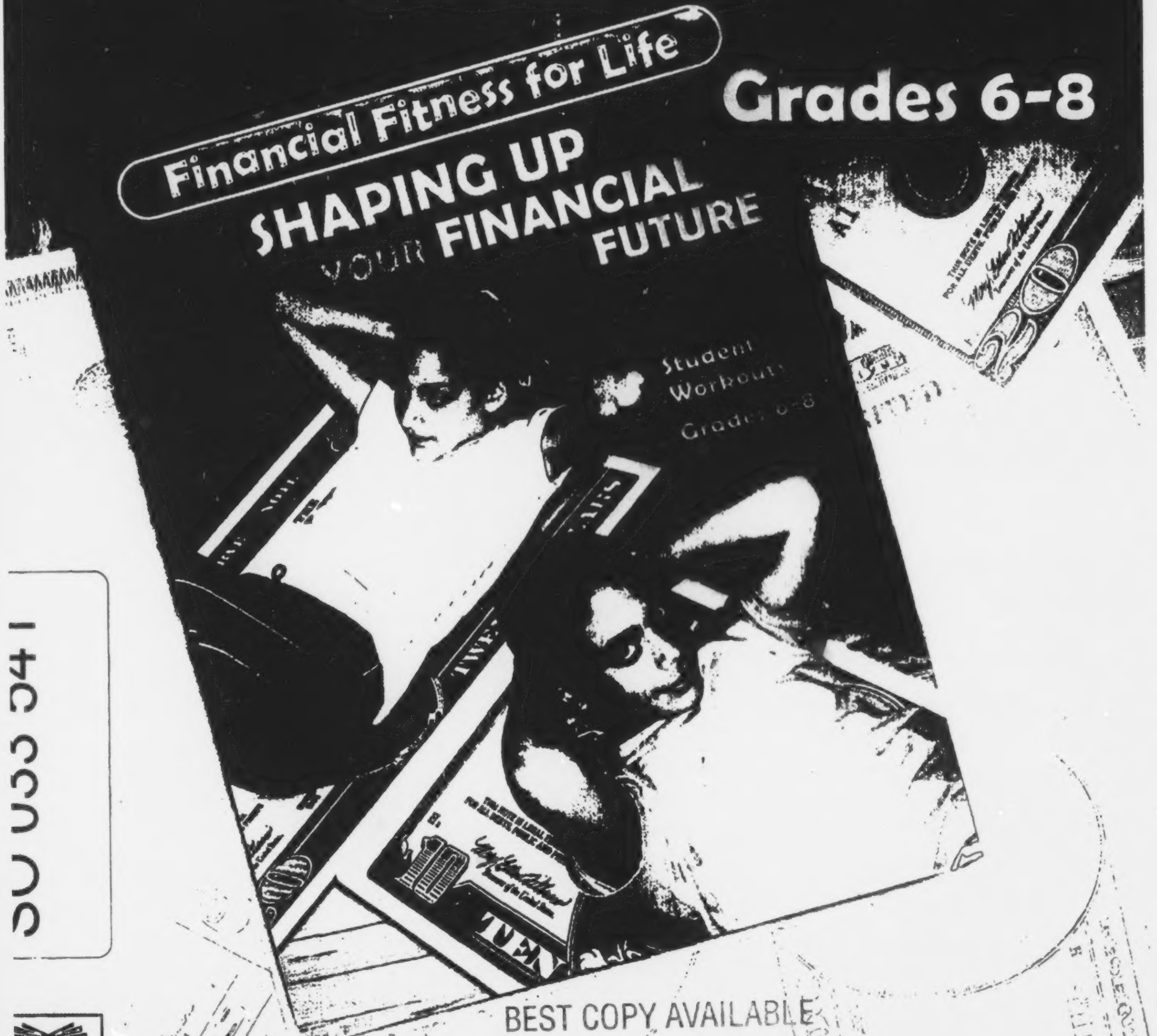
Financial Fitness for Life

TEACHER GUIDE

Grades 6-8



Financial Fitness for Life

SHAPING UP YOUR FINANCIAL FUTURE

Student Workouts

Grades 6-8

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NCEE

National Council on
Economic Education

Financial Fitness for Life

Shaping Up Your Financial Future

Grades 6-8

Teacher Guide

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NCEE

National Council on Economic Education

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👥 Lesson is appropriate for all students in 6–8 grade levels.
👤 Lesson may be challenging for some students in grade 6.

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FOREWORD

For more than 50 years, the National Council on Economic Education (NCEE) has been calling attention to the need to educate our young people effectively in the skills of economics and personal finance and showing how that need can best be met. These new materials for teachers, sponsored by the Bank of America Foundation, provide an excellent and dramatic step in the direction of improving economic and financial literacy.

NCEE is proud of this splendid partnership with the Bank of America Foundation—and of the product.

We have found that students exposed to the economic way of thinking are more self-confident and more competent in making financial decisions, building their careers, and acting as informed citizens. By gaining understanding of the "real" world, we increase our prospects for better lives. Thanks to this distinctive program, we can now improve substantially on that kind of learning-for-life for millions of young people—who are our future.

NCEE's new multifaceted, comprehensive, and integrated program addresses the issue of economic and financial illiteracy by offering teaching-learning materials at four levels—grades K–2, 3–5, 6–8, and 9–12. There are 15 to 22 lessons in each part. Content for each of the grade levels is based on the *Voluntary National Content Standards for Economics*, which NCEE wrote and published, as well as the national guidelines for personal finance. Lessons are geared to active learning with games, simulations, role-playing, and computer use. All of the materials are also correlated with the extensive educational tools in personal finance and economics on our web site: **www.ncee.net**.

One exciting feature of these outstanding materials is that, for the first time, NCEE is offering parent guides for each educational level. Our research shows that students learn a considerable amount of their economic decision-making abilities from their parents. So NCEE is committed to assisting parents in the practical education of their children. These guidebooks are fun, as well as informative and instructive, for both students and their parents.

Nationally recognized experts in personal finance and economic education wrote the materials. Other experts and practitioners in the field reviewed them. The materials were then field-tested in three states over a period of two months. Each lesson was used by at least six teachers in urban, suburban, and rural settings. Refinements were made in the lessons according to the reviews from the field-testing.

We are proud of the results—which will now become the leading edge of personal finance education for all students, grades 6–8.

Our thanks go to many people for this important development. Without the visionary philanthropy of the Bank of America Foundation, this project would not have been possible. We are also indebted to the authors of each set of documents; their dedication, insight, and creativity will become immediately apparent to users of these materials in the classroom and at home. We are grateful as well to the reviewers of the materials, and to the teachers, parents, and students in California, Florida, and Texas who field-tested the materials. Finally, and especially, we thank

Dr. John E. Clow who directed the developmental work; because he has worked in the vineyard of economic and personal financial education for several decades, his knowledge of the field has been invaluable in orchestrating this significant project.

Robert F. Duvall, Ph.D.
President & Chief Executive Officer
The National Council on Economic Education (NCEE)

INTRODUCTION

The Financial Fitness for Life Curriculum consists of high-quality materials that assist students from kindergarten to grade 12 in making better decisions for earning income, spending, saving, borrowing, investing, and managing their money. The materials at the four levels (grades K–2, 3–5, 6–8, and 9–12) focus on a fitness theme.

Developing financial fitness is like developing physical fitness. Both require developing a knowledge base and then applying it. The development of knowledge for use in the everyday life of the students is a main goal of the lessons. Each level uses a fitness terminology. The headings for the different parts of each lesson include *Equipment* (materials needed), *Warm-up* (introduction to lesson), *Workout* (body of lesson), and *Cool Down* (summary and review). An analogous concept also stressed in the materials is that one must continually work on financial fitness, just as with physical fitness, because of new developments. The materials emphasize, though, that some basic routines are used consistently in order to maintain financial fitness, such as the importance of determining the cost of each choice and the realization that there is no free lunch.

Besides the fitness focus, some other features are common to all of the levels. They include:

1. Each set of materials is based on **national standards**. Matrices in this publication show how the materials relate to the national standards for economics and mathematics and the national guidelines for personal finance.
2. All materials employ economics, called **the science of decision making**, as a way to prioritize the staggering array of choices facing students when they make decisions. By prioritizing, students learn how to make better decisions, and, equally important, to avoid poor ones. The emphasis on using economic concepts and an economic way of thinking distinguishes these materials from other materials used to develop personal financial literacy. The economic concepts and economic ways of thinking are basic fitness routines used when a person deals with personal financial matters.
3. Active learning and student reflection on these activities dominate all materials. Active learning without reflection does not necessarily enhance true learning defined as changing behavior. Active learning *plus* reflection optimizes true learning. As with physical fitness, one must "do" and then "reflect" upon what one did in order to incorporate that learning into one's lifestyle.
4. Developing physical fitness involves doing a variety of exercises and varying those exercises over time. Similarly, these materials include a variety of methods that appeal to many different learning styles. Role playing, group discussions, gathering information from the Internet, reading materials, interviewing individuals, and analyzing case problems are some of the many teaching methods that are found in the materials. Even more materials are available on the web site of the National Council on Economic Education **(www.ncee.net)** to add to the repertoire of activities and materials.
5. A number of influential coaches can enhance the fitness process, especially when developing financial fitness. Parents as partners in the educational process are an integral part of this set

of materials. Parents play an important role in developing the personal financial literacy of their children because of the modeling that they do in everyday life. The lesson plans for each educational level have a parent guide, which provides background information and fun activities for both the parent and the child.

6. Similar to planning physical fitness activities for different ages, the economic and personal finance concepts are approached at the experiential/developmental level of the student. More abstract applications of economic and personal finance concepts are found at the higher educational levels than at the lower ones. The developmental approach to learning has been a hallmark of National Council on Economic Education (NCEE) materials for several decades.

Using the Teacher Guide for **Shaping Up Your Financial Future**

The 17 lessons in the 6-8 document are divided into five theme areas: the economic way of thinking, earning an income, saving, spending and using credit, and managing money. Most of the lessons have several parts—taking two to three days to complete. Each lesson has a separate assessment component with evaluation activities ranging from paper-and-pencil quizzes to action-oriented tasks for students to do individually or in a group.

The Student Workouts include reading materials about the content of the lessons plus worksheets to promote active, reflective learning. Each lesson has an introductory reading which is motivational as well as descriptive. The introduction includes the general focus of the lesson, vocabulary development, and the general concepts/ideas of the lesson.

The Parents' Guide has activities that parents can do with their sons and daughters. The Guide includes content, worksheet activities, other activities, and resources. It is recommended that a guide be provided for each family. A letter to the parents from the teacher may help gain their cooperation. A reminder of when the parents should do a specific activity with a son or daughter would also help to encourage this school/home educational partnership. You may wish to have students report either orally or in writing on the activities they do with their parents.

Middle school students enjoy personal finance because it involves making decisions about their lives—both in the present and the future. Personal finance is an interdisciplinary area where language arts, computation skills, economics, finance, reasoning, and decision making are all brought together. We hope that you, your students, and their parents will enjoy the learning activities in these lessons and find them to be exciting, enriching experiences about some very important facts and skills for life.

John E. Clow, Ed.D.
Project Director
Financial Fitness for Life

Claire Melican
Vice President for Program Administration
National Council on Economic Education

TABLE 1

Correlation of **Shaping Up Your Financial Future** Lessons with Mathematics Standards and Benchmarks*

⬇Standards /Lessons ➡	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
NUMBER AND OPERATION																	
Understand numbers, ways of representing numbers, relationships among numbers, and number systems.																	
• Work flexibly with fractions, decimals, and percents to solve problems.	✓		✓	✓				✓				✓					✓
• Develop meaning for percents greater than 100 and less than 1.											✓						
• Develop an understanding of large numbers and recognize and appropriately use exponential, scientific, and calculator notation.								✓									
• Use factors, multiples, prime factorization, and relatively prime numbers to solve problems.								✓				✓					
Understand meanings of operations and how they relate to one another.																	
• Understand the meaning and effects of arithmetic operations with fractions, decimals, and integers.	✓		✓	✓							✓	✓					
Compute fluently and make reasonable estimates.																	
• Select appropriate methods and tools for computing with fractions and decimals from among mental computation, estimation, calculators or computers, and paper and pencil, depending on the situation, and apply the selected methods.	✓		✓					✓									

TABLE 1 CONTINUED

Standards /Lessons	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
• Develop and analyze algorithms for computing with fractions, decimals, and integers and develop fluency in their use.								✓									
MEASUREMENT STANDARD																	
Apply appropriate techniques, tools, and formulas to determine measurements.																	
• Solve problems involving scale factors, using ration and proportion.								✓				✓					
DATA ANALYSIS AND PROBABILITY STANDARD																	
Develop and evaluate inferences and predictions that are based on data.																	
• Use observations about differences between two or more samples to make conjectures about the populations from which the samples were taken.					✓												
PROBLEM SOLVING STANDARD																	
• Solve problems that arise in mathematics and in other contexts.						✓		✓			✓	✓			✓		
COMMUNICATION STANDARD																	
• Communicate their mathematical thinking coherently and clearly to peers, teachers, and others.	✓																
CONNECTIONS STANDARD																	
• Recognize and apply mathematics in contexts outside of mathematics.		✓	✓	✓			✓										
REPRESENTATION STANDARD																	
• Use representations to model and interpret physical, social, and mathematical phenomena.					✓												

* *Standards taken from* Principles and Standards for School Mathematics, *the National Council of Teachers of Mathematics (NCTM), 2000.*

TABLE 2

Correlation of **Shaping Up Your Financial Future** Lessons with the National Standards for Economics*

Lesson Number	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**	**17**
Economic Standards																	
1. Scarcity	✓																
2. Marginal cost/marginal benefits		✓			✓	✓									✓	✓	
3. Role of incentives	✓										✓						
4. Markets—price and quantity determination			✓							✓							
5. Role of economic institutions								✓		✓						✓	
6. Role of interest rates							✓	✓		✓		✓					
7. Role of resources in determining income			✓	✓													
8. Profit and the entrepreneur			✓														
9. Role of government																	✓

* *Taken from* Voluntary National Content Standards in Economics, *National Council on Economic Education (NCEE), 1997.*

TABLE 3 Correlation of **Shaping Up Your Financial Future** Lessons with the National Personal Financial Management Guidelines*

Lesson Number	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**	**17**
Personal Finance Management Guidelines																	
A. INCOME																	
1. Determinants of income			✓	✓	✓												
2. Sources of income				✓													✓
3. Taxes and transfer payments																	✓
B. MONEY MANAGEMENT																	
4. Opportunity Cost	✓				✓	✓	✓			✓	✓	✓			✓		
5. Short and long term financial goals						✓		✓	✓								
6. Budgeting						✓									✓		
7. Relationship between taxes, income, spending and financial investment																	✓
8. Risk management							✓		✓		✓						
9. Personal financial responsibility													✓	✓			
10. Perform basic financial operations						✓										✓	
C. SPENDING AND CREDIT																	
11. Spending now versus spending later												✓					
12. Costs and benefits of multiple transactions instruments												✓					
13. Risk and credit												✓					
14. Credit history and records													✓				
15. Rights and responsibilities of buyers, sellers, and creditors													✓				
16. Choosing among spending alternatives														✓			
17. Managing financial difficulties															✓		
D. SAVING AND INVESTING																	
18. Saving now versus saving later								✓									
19. Short and long term saving and investment strategies						✓											
20. Evaluate alternative investment decisions							✓		✓	✓							
21. Impact of government policies on saving and investment decisions							✓										

* *Taken from* Personal Financial Management Guidelines and Benchmarks, *JumpStart Coalition for Personal Financial Literacy, 1998.*

THERE IS NO SUCH THING AS A FREE LU
(THE ECONOMIC WAY OF THINKI

THEME 1

LESSON

1

The Economic Way of Thinking

Fitness Focus

EQUIPMENT AND GETTING READY!

Make overhead transparencies of the visuals listed here.

- ✔ Visual 1.1, *Limited Resources*
- ✔ Visual 1.2, *Every Choice Has An Opportunity Cost*
- ✔ Visual 1.3, *The Economic Way of Thinking*
- ✔ Visual 1.4, *Incentives Matter*
- ✔ Introductory reading for Theme 1 and Lesson 1 *(Shaping Up Your Financial Future Student Workouts)*
- ✔ Exercise 1.1, *Every Choice Has An Opportunity Cost (Shaping Up Your Financial Future Student Workouts)*
- ✔ Exercise 1.2 *Choosing the Better Incentive (Shaping Up Your Financial Future Student Workouts)*
- ✔ Exercise 1.3, *Using the Economic Way of Thinking (Shaping Up Your Financial Future Student Workouts)*
- ✔ Assessment 1.1, *The Economic Way of Thinking (Shaping Up Your Financial Future Student Workouts)*
- ✔ Family Activity 1, *Making Choices (The Parents' Guide to Shaping Up Your Financial Future)*
- ✔ Calculators
- ✔ One or two rolls of white adding machine paper (about 3 inches wide)
- ✔ Stopwatch

LESSON DESCRIPTION AND BACKGROUND

In this lesson, the students practice the *economic way of thinking*, a strategy for analyzing their own decisions as well as those of others. The *economic way of thinking* is based on the following principles:

- ▲ Resources are limited.
- ▲ People cannot have everything they want.
- ▲ People must make choices.
- ▲ Every choice involves a cost.
- ▲ People's choices have consequences.
- ▲ People respond to incentives.

The students engage in activities that require an analysis of choices, using the *economic way of thinking*.

This lesson is correlated with national standards for mathematics and economics as well as the national guidelines for personal financial management as shown in Tables 1 through 3 in the front of the book.

Student Objectives

At the end of this lesson, the student will be able to:

- ✔ Explain how limited resources necessitate choices.
- ✔ Identify the costs and benefits of a choice.
- ✔ Define opportunity cost.
- ✔ Identify and evaluate incentives.
- ✔ Analyze choices and predict consequences.

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ECONOMIC AND PERSONAL FINANCE CONCEPTS

Opportunity cost, incentive, consequence

PARENT CONNECTION

Family Activity Worksheet 1 in *The Parents' Guide* focuses on having the parents and their son or daughter identify times when they had to make choices between alternatives involving a scarcity of time, space, or money. Identifying the opportunity cost and consequences of each choice is also a part of the activity. The role of incentives in choice making is also considered.

The Parents' Guide is a tool for reinforcing and extending the instruction provided in the classroom. It includes:

1. Content background in the form of frequently asked questions.
2. Interesting activities that parents can do with their son or daughter.
3. An annotated listing of books and Internet resources related to each theme.

TIME
REQUIRED
2
class periods

Workout

WARM-UP

1. Introduce the idea of unlimited wants by giving each student a 3-foot strip of adding machine paper. Ask the students to list on the paper all the things they want that can be bought with money (this will eliminate the possibility of the students' listing intangibles, such as *world peace*).
2. At the end of three minutes, ask the students if they have listed everything they want. *(Most will probably say they have not.)*
3. Explain that human wants are unlimited. Even if the students had more than three minutes, they would probably not be able to list all their wants.

EXERCISE

1. Opportunity Cost

a. Using Visual 1.1, *Limited Resources*, explain that time, space, and money are limited, and people cannot have everything they want.

b. Have each student tape his or her list of wants to the board, and explain that it is the combination of unlimited human wants and limited resources that forces people to make economic choices.

c. Explain that every choice involves an *opportunity cost*—the next best alternative that is given up when a choice is made. Display Visual 1.2, *Every Choice Has An Opportunity Cost*, and review the statements about how people have to make choices because of their unlimited wants and limited resources.

d. Discuss with the students the choices and opportunity costs in the three examples posed in Visual 1.2. *(When Sofia chooses to study, her opportunity cost is the time she could have used to read. When Maurice chooses to use his limited locker space for books, his opportunity cost is the* *space that could have been used for shoes. When Nguyen chooses to use his limited money to buy snacks, his opportunity cost is the movie ticket he could have bought.)*

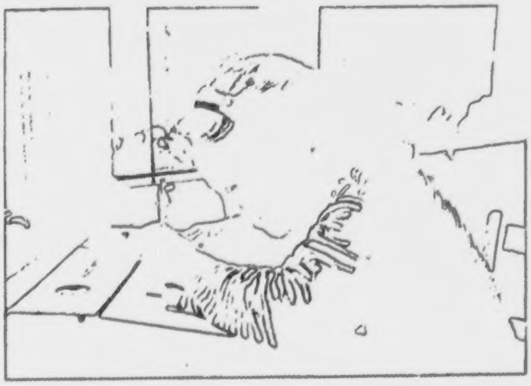
e. Have the students suggest personal experiences that have involved limited time, space, or money. Have them identify their choices and opportunity costs. *(Students' discussion of personal experiences will vary, but they should focus on their choices and what they had to give up in each instance. They should use the term "opportunity cost" as they discuss their choices and what they gave up.)*

f. Divide the class into pairs, and have each pair complete Exercise 1.1, *Every Choice Has An Opportunity Cost*, in *Student Workouts*, following the examples given in Visual 1.2. When the students complete the exercise, engage them in a discussion of the statements they made. *(Sample answers: Shaundra can choose to get her mom a less expensive gift, or she can tell her mom she'll have the gift for her later, after she saves more money. If she chooses the less expensive gift, her opportunity cost is the necklace. Angelo's alternatives are to keep an aquarium or a stereo in his room. If he chooses the aquarium, his opportunity cost is the stereo. Raul's alternatives are to take the time to raise $15.00 or to spend the time doing something else. If Raul chooses to spend his time doing something else, his opportunity cost is to participate in the raffle.)*

2. Incentives

a. Have the students read the *Introduction* to Theme 1 and the *Warm-Up* and *Fitness Vocabulary* of Lesson 1 in *Student Workouts*. Discuss the new vocabulary, making sure the students understand the concepts.

b. **Display Visual** 1.3, *The Economic Way of Thinking*, and review the components with the class. Tell the students that by using the *economic way of thinking*, they will be better able to evaluate their own decisions and those of others.



c. Define *incentives* as factors that motivate and influence human behavior. Explain that incentives can be monetary (economic) or non-monetary (non-economic). *Monetary incentives* relate to money, income, and economic wealth. *Non-monetary incentives* motivate people for reasons other than money, wealth, or income. For example, parents might turn down higher-paying jobs in another town so that their children do not have to switch schools. Or a student might give up a baby-sitting job in order to spend time with friends.

d. Explain that in a market economy, pursuit of self-interest is an important motivator, whether that interest is monetary or non-monetary. For example, *entrepreneurs* take risks in order to start businesses in hopes of making lots of money. Non-monetary incentives can be physical, emotional, spiritual, or social. For example, people exercise to maintain good health and to look better. Those in religious orders provide care and shelter for the poor and sick because of a spiritual incentive to help others.

e. Display Visual 1.4, *Incentives Matter.* Have the students suggest responses to the "Choices" in the chart. *(Answers will vary; suggested responses are given on the next page.)*

f. Divide the class into pairs of students and distribute calculators. Have the students turn to Exercise 1.2, *Choosing the Better*

Choice	Economic Incentive	Non-Economic Incentive
Save half of baby-sitting money in a savings account.	Parents agree to match your savings, dollar for dollar.	You want to make a donation of money to AIDS victims. (Spiritual, emotional or social.)
Buy a new bike.	Price of bike is reduced.	You can get exercise riding the bike. (Physical.)
Open a charge account at a local store.	You can take advantage of sale prices.	There is prestige among peers to have a charge card. (Social.)
Lend $10 to a classmate.	Your friend will lend you money the next time you need it.	The classmate is a good friend. (Social.)
Join a walk-a-thon for charity.	Every participant gets a free T-shirt.	You feel good about yourself when you help others. (Spiritual or emotional.)

Incentive in *Student Workouts*. Have the students calculate the savings they would enjoy from each coupon, determine which is the better incentive in each instance, and record their decision and an explanation on the answer sheet. *(Answers are given below and on the next page.)*

g. Explain that when consumers are presented with different economic choices, they must be able to determine which one offers the greatest economic incentive.

3. Costs and Benefits

a. Ask the students to read *Muscle Developers* and *Showing Your Strength* in *Student Workouts*. Discuss their reactions to the two sections and answer any questions.

b. Explain that all choices involve *costs* and *benefits*. *Costs* are what you give up; *benefits* are what you gain when you make a choice.

c. Have the students work in small groups to complete Exercise 1.3, *Using the Economic Way of Thinking*, and discuss their answers. *[(1) Finances were limited; the students did not have enough money to pay for both a DJ and video show. (2) The committee chose the video-sound show. (3) Its incentive was the expectation of making more money. (4) The opportunity cost of choosing the video show was the choice of having the DJ. (5) Cost: higher priced entertainment carried risk of losing money. Benefit: possibility of making more money because more students would attend. (6) Consequences were that a larger number of students attended the dance, and the Honor Society made more money than expected. (7) No, the consequences do not always turn out as planned. With reasoned decisions, though, there is less chance for undesired consequences to occur.]*

1. Incentive #1 is the better deal.
#1: 20% off = $11.99 - $2.40 = $9.59
#2: Save $2.00 = $11.99 - $2.00 = $9.99

2. Incentive #2 is the better deal.
#1: Two boxes cost $5.18, get one free. Therefore, 3 boxes cost $5.18, or $1.73 each ($5.18 / 3).
#2: Save $1.00 on each box = $2.59 - $1.00 = $1.59 each.

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3. Incentive #1 is the better deal.

#1: Two 32-oz jars cost $2.56, or $1.28 each, or $0.04 per ounce.

#2: Two 48-oz jars cost $5.98, minus $0.50 each = $4.98, divided by 96 ounces = $0.05 per ounce.

4. Incentive #2 is the better deal.

#1: $69.95 + $34.98 = $104.93 for two pairs.

#2: $100 for 2 pairs.

5. Incentive #2 is the better deal.

#1: $5 off = $240 ($40 x 6 tickets) + $7.99 for root beer = $247.99

#2: $45 x 5 tickets = $225

6. Incentive #1 is the better deal.

#1: 10% of $18 = $1.80 and $18.00 - $1.80 = $16.20

#2: $5.50 + $5.50 + $5.75 = $16.75

7. Both incentives are the same.

#1: 4 nights x $8.00 = $32.00; 2 nights x $4.00 = $8.00; $32 + $8 = $40.00

#2: 5 nights x $8.00 = $40.00; 1 night free; total = $40.00

8. Incentive #1 is the better deal.

#1: $16.99 + $16.99 = $33.98

#2: Two pizzas for $35.00

9. Incentive #2 is the better deal.

#1: $35.99 + $35.99 + $49.99 = $121.97 for three games.

#2: 3 games x $49.99 = $149.97 minus $29.99 (20%) = $119.98 for three games.

10. Incentive #2 is the better deal.

#1: $1.69 (4 oz bar) + $1.69 (4 oz bar) + free 2 oz. bar + $0.89 (2 oz bar) = $4.27 for 12 ounces.

#2: $0.69 x 6 two-oz. Bars = $4.14 for 12 ounces.

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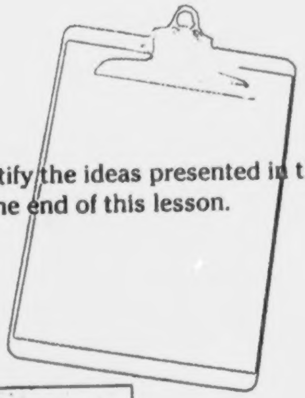
COOL DOWN

Have the students look through local newspapers to find articles about economic decisions. (Examples can be frivolous or serious, and can represent decisions in politics, entertainment, media, sports, business, etc.) Divide the class into groups and have each group analyze one decision using the *economic way of thinking*. Remind the students to examine choices, costs, benefits, incentives, and consequences. After the groups finish their analysis, engage the class in a discussion of each group's news articles and how the *economic way of thinking* helped them examine people's decisions.

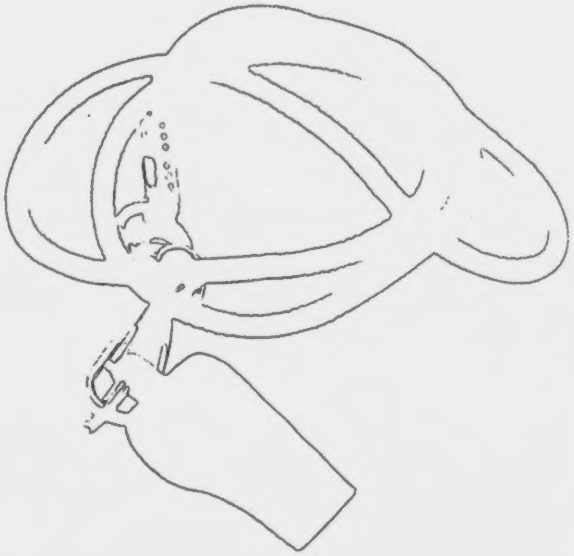
Assessment

Students should complete Assessment 1.1. It asks them to identify the ideas presented in this lesson with real-life situations. The answer key is provided at the end of this lesson.



Other Training Equipment

An annotated bibliography and Internet resources can be found on our web site, **www.ncee.net**, and in *The Parents' Guide to Shaping Up Your Financial Future*.



Visual 1.1

Limited Resources

Because resources are limited, people can't have everything they want.

For example:

You can't go to a dance **and** to a basketball game on Friday night because **time** is limited.

You can't put a big screen TV **and** a pool table in the family room because **space** is limited.

You can't buy everything you see at the mall because **money** is limited.

Visual 1.2

Every Choice Has an Opportunity Cost

Because time, space, and money are limited, people can't have everything they want; they have to make choices. Every choice involves an opportunity cost—the next best alternative.

Because time is a limited resource, people have to make choices.

Sofia must decide whether to finish her math assignment or read a book after dinner. If she chooses to use her time to do the math assignment, the opportunity cost is reading the book.

Because space is a limited resource, people have to make choices.

Maurice must decide whether to put books or gym shoes on the shelf in his locker. If he chooses to use the shelf space for books, the opportunity cost is space for his shoes.

Because money is a limited resource, people have to make choices.

Nguyen must decide whether to spend his allowance for snacks or a movie ticket. If he chooses to buy snacks, the opportunity cost is the movie ticket.

Visual 1.3

The Economic Way of Thinking

1 Resources are limited.

2 People cannot have everything they want.

3 People must make choices.

4 Every choice involves a cost.

5 People's choices have consequences.

6 People respond to incentives.

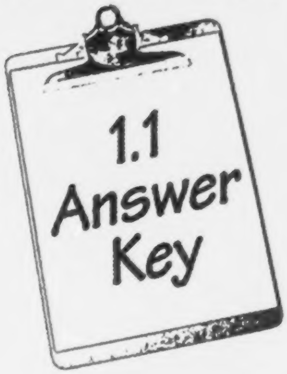
Visual 1.4

Incentives Matter

Choices	Economic Incentive	Non-Economic Incentive
Save half of earned baby-sitting money in a savings account.	Parents agree to match your savings, dollar for dollar.	
Buy a new bike.		You can get exercise riding the bike.
Open a charge account at a local store.		
Lend $10 to a classmate.		
Join a walk-a-thon for charity.		

What's the opportunity cost of each choice above?

ASSESSMENT



The Economic Way of Thinking

Distribute Assessment 1.1 (Shaping Up Your Financial Future Workouts) **and have each student complete it independently. Answers may vary. Some possible answers include:**

1. **Instead of putting an extra $3,000 in their retirement fund, Florence and Joe decided to fly from Chicago to Florida for a week of golf and relaxation.**
   - ▲ Choice: *(Fly to Florida).*
   - ▲ Opportunity cost: *(Add $3,000 to their retirement fund.)*
   - ▲ Incentive: *(Chance to play golf and relax).*
   - ▲ Consequence of their choice: *(Win a tournament; lose a golf club.)*
   - ▲ Benefits: *(Meet new friends at the tournament; have a relaxing vacation.)*

2. **Brian and Sheryl paid their credit card debt instead of putting a down payment on a new convertible.**
   - ▲ Choice: *(Paid credit card balance.)*
   - ▲ Opportunity cost: *(Enjoyment of new convertible.)*
   - ▲ Incentive: *(Eliminate monthly payments and high interest charges.)*
   - ▲ Consequence of their choice: *(Had more money to save or spend on other purchases.)*
   - ▲ How did Brian and Sheryl benefit from their choice? *(Had more disposable income to spend or save because they no longer had to pay monthly payments.)*

3. **Su-Zee, Lorena, and their friends went to the beach instead of working at the school book sale last weekend.**
   - ▲ Choice: *(Weekend at the beach.)*
   - ▲ Opportunity cost: *(Spending time with other friends at the book sale.)*

- △ Incentive: *(Get a suntan; enjoy a day at the beach.)*
- △ Consequence of their choice: *(Sunburn; friends at book sale angry that Su-Zee and friends didn't help at the book sale.)*
- △ How did Su-Zee, Lorena, and their friends benefit from their choice? *(Nice tan, day of fresh air and exercise, fun at the beach.)*

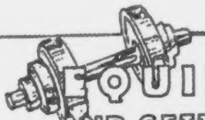
B. Using the economic way of thinking, answer this question on the back of this sheet: Why do math teachers give homework every day?

- △ Teacher's Choice: *(Give homework, have to check it.)*
- △ Opportunity Cost: *(Free time with no homework to check.)*
- △ Incentive for Making the Choice: *(Students will learn more; students will do better on tests).*
- △ Consequence of Choice: *(Missing good TV shows; less time with family.)*
- △ How/who benefits: *(Students learn more, do well and teacher gets good evaluations from parents, administrators; teacher has feeling of accomplishment.)*

LESSON 2

Consumer Decision Making

Fitness Focus



EQUIPMENT AND GETTING READY!

Make overhead transparencies of the visuals listed here.

- ✔ Visual 2.1, *The PACED Decision-Making Process*
- ✔ Visual 2.2, *Which Graham Cracker is Best?*
- ✔ Introductory reading for Lesson 2 *(Shaping Up Your Financial Future Student Workouts)*
- ✔ Exercise 2.1, *Which Graham Cracker Is Best? (Shaping Up Your Financial Future Student Workouts)*
- ✔ Exercise 2.2, *Using the PACED Decision-Making Process (Shaping Up Your Financial Future Student Workouts)*
- ✔ Exercise 2.3 (and PACED grid sheet), *Some Criteria are More Valuable Than Others (Shaping Up Your Financial Future Student Workouts)*
- ✔ Assessment 2.1, Panel Discussion *(Shaping Up Your Financial Future Student Workouts)*
- ✔ Family Activity 2, How Can We Decide? *(The Parents' Guide to Shaping Up Your Financial Future)*
- ✔ Product advertisements from newspapers or magazines
- ✔ 4" x 6" index cards (one per student)
- ✔ Construction paper and crayons or markers
- ✔ Three brands of graham crackers (or pretzels, soda crackers, etc.)
- ✔ Approximately 24 sandwich-sized plastic bags (Mark the bags "A," "B," and "C," and place 4–5 crackers of one brand in each bag. Be sure to note which brand is A, which is B, and which is C.)
- ✔ Paper cups (one per student) and water

LESSON DESCRIPTION

In this lesson, the students learn that every decision involves alternatives. They practice using the PACED decision-making process:

- ▲ State the **P**roblem.
- ▲ List **A**lternatives.
- ▲ Identify **C**riteria.
- ▲ **E**valuate alternatives based upon criteria.
- ▲ Make a **D**ecision.

The PACED decision-making process is designed to help the students solve problems in a rational and systematic way. By recognizing what is important to them when they make a decision, the students will be able to evaluate their options and make more informed decisions.

Student Objectives

At the end of this lesson, the student will be able to:

- ✔ Explain the purpose of a decision-making plan.
- ✔ Analyze a problem, using the PACED decision-making process.
- ✔ Explain why some criteria have more weight than others when using the decision-making process.
- ✔ Identify the costs and benefits of a decision.

This lesson is correlated with national standards for mathematics and economics as well as the national guidelines for personal financial management as shown in Tables 1 through 3 in the front of the book.

ECONOMIC AND PERSONAL FINANCE CONCEPTS

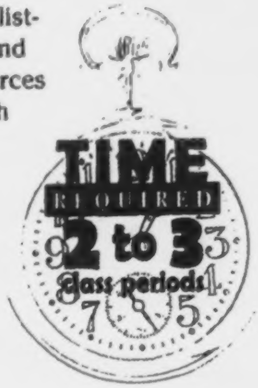
Opportunity cost, trade-off, alternatives, criteria, cost/benefit analysis

PARENT CONNECTION

Family Activity 2 in *The Parents' Guide* involves having each student and his/her parent use the PACED decision-making process to make a family decision. Assign this family activity after you have covered the PACED process in class so that the students have familiarity with it. Have the students report on how they used the PACED process with their families.

The Parents' Guide is a tool for reinforcing and extending the instruction provided in the classroom. It includes:

1. Content background in the form of frequently asked questions.
2. Interesting activities that parents can do with their daughter or son.
3. An annotated listing of books and Internet resources related to each theme.



Workout

WARM-UP

1. Introduce the lesson by telling the students you've noticed that people often make impulsive decisions about what to buy. While this may not be a big problem when the product being purchased is a 59-cent candy bar, the situation can become critical if it is a $2,000 computer or a $30,000 car.
2. Have the students read the *Warm-Up* in Lesson 2 of *Student Workouts*, and stress that rational decision making is an important skill. Tell the students that if they begin to use sound decision-making strategies in minor situations, they will be ready to handle major decisions when they come along.
3. Tell the students that they will participate in a decision-making simulation. The purpose of the simulation is to demonstrate that good decisions are a result of recognizing options and evaluating costs and benefits.
4. Display Visual 2.1, *The PACED Decision-Making Process*, and review the five steps. Discuss the example on the visual, and ask the students to suggest other problems, alternatives, and criteria.
5. Emphasize that making a decision is the last step in the process and that decision making should always come after the process of recognizing alternatives, defining criteria, and evaluating the criteria.

EXERCISE

1. **Which Graham Cracker Is Best?**
    a. Tell the students that they will use a decision-making process to select their favorite graham cracker. (Other items could be used, such as pretzels, vanilla wafers, or soda crackers.) After they identify their criteria, they will test several crackers to decide which one meets their definition of the best graham cracker.
    b. Divide the class into groups of three or four students. Have the students turn to Exercise 2.1, *Which Graham Cracker is Best?* in *Student Workouts*. Display Visual 2.2. Instruct the students to list in the

first row the characteristics they would look for when choosing a graham cracker. These characteristics are called *criteria*. (Answers will vary, but the students will probably mention taste, color, aroma, crunchiness, price, and nutritional content. If the students choose price as a criterion, tell them that you will tell them the price after the test. If they know before the test, price might influence their decision.)

c. Show the students the bags of graham crackers, and point out that there are three brands: A, B and C. These are the *alternatives*.

d. Distribute three bags of graham crackers (A, B and C) to each group and a small cup of water to each student.

e. Have the students taste the three different crackers. Instruct the students to "cleanse their palates" with some water between tasting each alternative. The one that best satisfies the taste criterion receives a score of 3, the next best one receives a 2, the least satisfactory cracker receives a 1. (This should be a group decision.)

f. Demonstrate how the grid in Visual 2.2 should be completed. Have the students continue to evaluate the crackers according to each of the other criteria, using the same "3-2-1" marking system.

g. When all groups have completed their evaluations, discuss the simulation with the class, emphasizing again the importance of identifying criteria before evaluating alternatives and making a decision.

h. After each group has expressed its preference and stated its reasons, reveal the brands and the costs of each to the class and allow time for discussion and reactions. Show costs both as price per box and unit cost. Show the students how unit cost is figured by dividing the cost of the item by the weight. (Often the students are surprised to find out that a less expensive brand meets their criteria as well as, or better than, a costlier one.)

i. Explain that some decisions, such as choosing the best graham cracker, are all-or-nothing. (For example, if they were going to buy graham crackers, they would probably buy one brand and not another.) In an all-or-nothing situation, when they choose one alternative, they give up the chance to enjoy another one. The next best alternative they give up is the *opportunity cost*. (If Brand A is their favorite cracker, followed by Brand C and Brand B, then if they buy Brand A, Brand C is the opportunity cost—the next best alternative.)

j. Have the students read the *Fitness Vocabulary*, *Muscle Developers*, and *Showing Your Strength* in *Student Workouts*. Make sure the students understand the new vocabulary and concepts by engaging them in a discussion of the new terms.

2. Using the PACED Decision-Making Process

a. Have the students complete Exercise 2.2 in *Student Workouts* as an independent or small group assignment. *(Problem: At which store should I buy a new baseball mitt? Alternatives: Super-Star or Pro-Athlete Sporting Goods Stores. Criteria: price, selection, guarantee, time for shopping, exchange policy, location. Evaluate: Answers will vary. Accept any reasonable*

Criteria ➡ **Alternatives ⬇**	**Lower price**	**Wider selection**	**Better guarantee**	**More time to shop**	**Easier to return/exchange**	**Closer to home**
Super-Star Sports Goods Store	Yes	No	No	No	No	Same
Pro-Athlete Sports Goods Store	No	Yes	Yes	Yes	Yes	Same

explanations. Decision: Answers will vary. Opportunity cost: If they buy a mitt at one store, buying a mitt at other store is the opportunity cost. A completed decision-making grid is shown on the preceding page.)

b. Explain that some choices, such as which baseball mitt to buy, are all-or-nothing. If you buy a mitt at one store, you won't buy a mitt at the other store. However, many times choices involve trade-offs, i.e., giving up a little of one thing in order to get a little more of something else. Point out that if the students have ever studied for one hour instead of two, they have traded off one hour of studying for one hour of watching television.

3. Some Criteria Are More Valuable Than Others

a. Explain that in some decision-making situations all the criteria are equally important (e.g., when choosing a graham cracker, taste and aroma may have the same value to you); however, in other decision-making situations, some criteria may be more important than others (e.g. when buying a new music CD, price is important, but it may not be as important as the type of music). Have the students suggest other examples. (When buying a new bike, price may be more important than color. When choosing a hair stylist, quality of work may be more important than price. When shopping for groceries, wide selection may be more important than location.)

b. Explain that when criteria have different degrees of importance, they can be given different values in the PACED grid.

c. Have the students read the opening paragraph of Exercise 2.3 in *Student Workouts*; point out how the values will be used to complete the grid, based upon the eight computer advertisements.

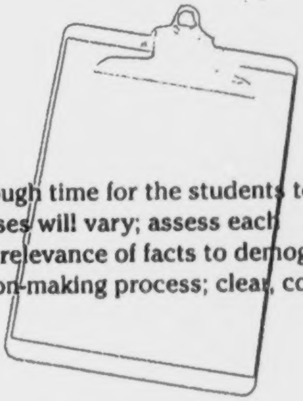
d. Have the students complete Exercise 2.3, using the grid in *Student Workouts* to record their answers. (Completed grid is shown below: Row D is highlighted; it is the choice.)

Criteria →	**Less than $2000**	**17" monitor or larger**	**Stereo sound system**	**56K modem or faster**	**128 MB RAM or more**	**10 GB hard drive or more**	**Color printer**	**Total Value**
Value	5	5	1	4	3	2	4	
Alternatives								
A	0	5	1	0	3	2	4	15
B	5	5	1	0	0	0	4	15
C	5	0	0	4	3	0	4	16
D	5	5	1	4	0	2	4	21
E	5	0	1	0	3	2	0	11
F	5	0	1	4	3	2	4	19
G	0	5	1	4	3	2	4	19
H	5	5	0	4	0	2	4	20

e. Discuss the second question posed after the grid in Exercise 2.3. The students' explanation of why it would be best for the Noga family to buy Computer D should reflect a discussion of how the benefits of this particular product outweigh the costs of choosing some other one.

COOL DOWN

1. Display a number of advertisements from newspapers or magazines, pointing out the criteria noted in each ad (e.g., an ad for a sports drink might mention taste, vitamin content, price, quick thirst-quenching, etc.). Ask each student to list on a 4" × 6" index card, a good or service s/he has purchased in the past month. The students should also list the criteria that they value in that product.
2. Have the students exchange cards and use construction paper and markers to design an advertisement for the product on their cards, making sure to highlight and illustrate the criteria. (For example, if the item is a CD player, they should highlight criteria such as size, price, sound quality, number of functions, and portability.)

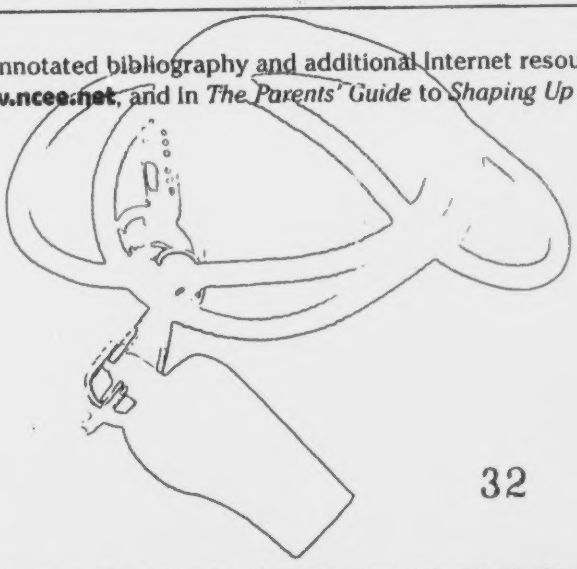


Assessment

Distribute Assessment 2.1 in *Student Workouts* and allow enough time for the students to conduct research and prepare their panel discussions. (Responses will vary; assess each group/individual based upon the following: facts presented; relevance of facts to demographics of Group A, B, or C; appropriate use of the PACED decision-making process; clear, concise communication of information.)

Other Training Equipment

An annotated bibliography and additional Internet resources are available on our web site, **www.ncee.net**, and in *The Parents' Guide* to *Shaping Up Your Financial Future*.



Visual 2.1

The PACED Decision-Making Process

P State the **problem.**

A List the **alternatives.**

C Identify the **criteria.**

E **Evaluate** the alternatives based upon the criteria.

D Make a **decision.**

Problem:	I don't have enough time to finish two big assignments.
Alternatives:	I can do my math homework or finish my science project.
Criteria:	I have an A average in math and a C average in science. The math assignment is worth 10% of my math grade; the science project is worth 25% of my science grade. I've missed two assignments in math; I haven't missed any assignments in science.
Evaluate:	Because I'm not doing so well in science, and the science project is worth more, it's more important for me to finish the science project (even though I have a missing math assignment).
Decision:	I'll finish the science project.

Visual 2.2

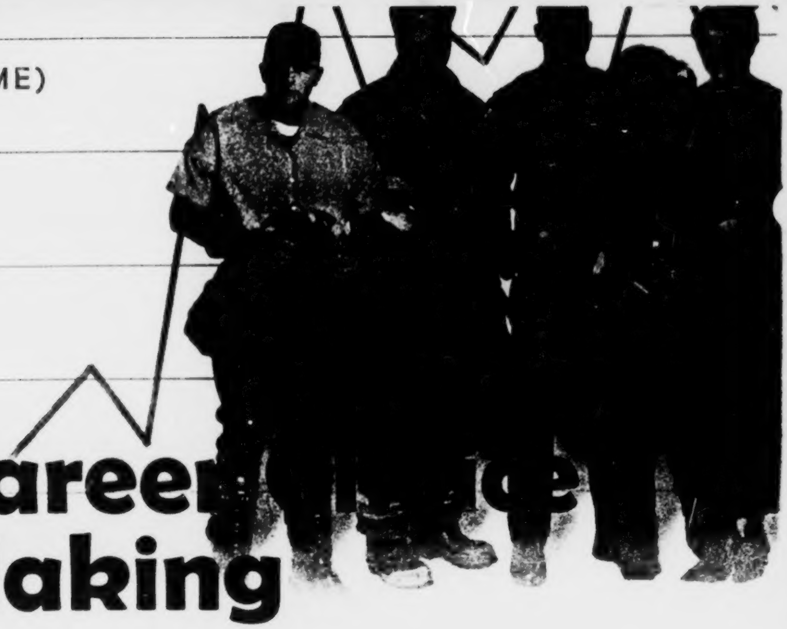
Which Graham Cracker Is Best?

Criteria → ↓ Alternatives					
A					
B					
C					

[illegible]

LESSON

3



Caree
Making

Fitness Focus

EQUIPMENT AND GETTING READY!

Make overhead transparencies of the visuals listed here.

- ✓ Visual 3.1, *What Is Human Capital?*
- ✓ Visual 3.2, *Human Capital Score Sheet*
- ✓ Visual 3.3, *Answers to Demand for Labor in Various Occupational Areas*
- ✓ Visual 3.4, *SCANS Skills*
- ✓ Visual 3.5, *The Role of the Entrepreneur in the Economy*
- ✓ Activity 3.1A and B, *Success Depends on Human Capital*, Group A & B
- ✓ Activity 3.2A and B, *Success Depends on Human Capital*, Group A & B *(optional)*
- ✓ Introductory reading for Theme 2 and Lesson 3 *(Shaping Up Your Financial Future Student Workouts)*
- ✓ Exercise 3.1, *Demand for Labor in Various Occupational Areas (Shaping Up Your Financial Future Student Workouts)*
- ✓ Exercise 3.2, *Self-Assessment (Shaping Up Your Financial Future Student Workouts)*
- ✓ Exercise 3.3, *Human Capital and SCANS on the Job (Shaping Up Your Financial Future Student Workouts)*
- ✓ Exercise 3.4, *How Do Entrepreneurs Earn a Living? (Shaping Up Your Financial Future Student Workouts)*
- ✓ Assessment 3.1, *What's Wrong With This Picture? (Shaping Up Your Financial Future Student Workouts)*
- ✓ Family Activity 3, *What Career Interests You? (The Parents' Guide to Shaping Up Your Financial Future)*
- ✓ Stopwatch
- ✓ Calculators
- ✓ Calculators

LESSON DESCRIPTION

In this lesson, the students learn that career choices are easier to make if they understand the job market, recognize their own aptitudes, and realize the relationship between marketable skills and workplace success. They will begin by examining statistics projecting the future demand for various occupations. Then they will complete a self-assessment to identify career pathways that match their interests and abilities. After evaluating a number of job descriptions, they will compare each job's requirements to the skills recommended by SCANS (Secretary's Commission on Achieving Necessary Skills). Finally, the students will consider entrepreneurship as a career option, defining the characteristics of successful entrepreneurs.

This lesson is correlated with national standards for mathematics and economics as well as the national guidelines for personal financial management as shown in Tables 1 through 3 in the front of the book.

Student Objectives

At the end of this lesson, the student will be able to:

- ✓ Examine projected demand for a variety of occupations in relation to one's interests.
- ✓ Analyze how human capital is related to career choices and opportunities.
- ✓ Recognize the importance of investment in human capital.
- ✓ Explain the relationship of worker productivity to education and experience.
- ✓ Describe the characteristics of an entrepreneur.
- ✓ Explain how entrepreneurs benefit the economy.

ECONOMIC AND PERSONAL FINANCE CONCEPTS

Human capital, entrepreneur, opportunity cost

PARENT CONNECTION

Family Activity 3 in *The Parents' Guide* involves having the student work with his/her parents in using the PACED decision-making process for making some career/job choices. A career interest self-assessment is also a part of the parent guide activity for this lesson. You may want the students to write a short paper on what they learned from doing the activities with their parents.

The Parents' Guide is a tool for reinforcing and extending the instruction provided in the classroom. It includes:

1. Content background in the form of frequently asked questions.
2. Interesting activities that parents can do with their son or daughter.
3. An annotated listing of books and Internet resources related to each theme.

TIME
REQUIRED
3 to 4
class periods

Workout

WARM-UP

1. Ask what skills, knowledge, and experience the cook in the school cafeteria must have. *(Knowledge of sanitation, reading and math skills to follow recipes and calculate measurements, and knowledge or experience using kitchen equipment,etc.)* Tell the students these abilities or skills are called the cook's *human capital.*
2. Display Visual 3.1, *What Is Human Capital?* and have the students suggest responses for the listed occupations. *(Answers will vary; suggested answers are given below.)*

Pilot	Marine Biologist	Web Designer	TV Reporter
Good vision and eye-hand coordination; knowledge of plane operation; understanding of weather patterns and air pressure; confidence.	Unafraid of water; education in biology and oceanography; apprenticeship in marine biology program; patience.	Keyboarding, installing software; education in information technology; internship at a software company; creativity.	Pleasant voice; good reader; understanding and interest in geography, world events; college TV station or radio station experience; articulate.

EXERCISE

1. Insiders and Outsiders.

- **a.** Demonstrate how knowledge can improve human capital by having the students complete the following simulation.
- **b.** Divide the class into two teams: Group A and Group B.
- **c.** Distribute Activity 3.1A *Success Depends Upon Human Capital Group A*, **face down**, to Group A, and Activity 3.1B *Success Depends Upon Human Capital Group B*, **face down**, to Group B.

d. Explain to the students that they will participate in a timed exercise. They are not to begin until told to do so. When they complete the exercise, they should raise their hands, and you will call out their times. They should write their own time at the bottom of the sheet.

e. Explain that if some students have not completed the exercise at the end of five minutes, time will be called. Those students will receive a maximum score of five minutes.

f. Students who finish in fewer than five minutes should sit quietly and not disturb others who are attempting to complete the exercise.

g. Instruct only the *Group A* students to turn over their papers and read the directions at the top.

h. When all the *Group A* students have read the directions, start the stopwatch and have the *Group B* students turn their papers over and both groups begin the exercise.

i. Call out the elapsed times for the students as they raise their hands signaling that they have completed the exercise.

j. At the end of five minutes, call "time," and instruct the students who have not completed the exercise to write "5 minutes" on their sheets.

k. Provide the answers but **do not** reveal the secret of the code: *(1) The rock concert last Saturday was really great. (2) My uncle bought a new red sports car. (3) Every person in my family has a ton of freckles. (4) I enjoy playing video games with my friends. (5) During the game our coach became angry with the umpire.*

l. Display Visual 3.2, *Human Capital Score Sheet*. Ask the *Group A* students to raise their hands if their time was between zero and one minute. Record in the first cell of the grid the number of students whose hands are raised. Continue to count the students and record numbers until the top portion of the chart is complete for both *Group A* students and *Group B* students.

OPTIONAL: To demonstrate how experience can also improve human capital:

- ▲ Distribute Activity 3.2A face down to the *Group A* students and Activity 3.2B face down to the *Group B* students. Start the clock, and have both groups read the directions and repeat the Exercise.
- ▲ Provide the answers: *(1) When my mom bakes bread, the whole house smells delicious. (2) At the park near my house there is a new soccer field. (3) Our garage is cluttered with old bikes and lawn mowers. (4) At the eighth grade dance our principal wore a black tuxedo. (5) In science we learned how to separate hydrogen and oxygen.*
- ▲ Display Visual 3.2 again and complete the bottom portion, once again having the students comment on the results. *(Times may be more similar in this round, although Insiders may still perform more quickly because of their previous experience.)*

m. Engage the students in a discussion of the differences in the scores of the two groups. Pose the questions on the bottom of Visual 3.2. *(Group A students were faster [more productive] because of* ***knowledge*** *of the code. Knowledge increases productivity.* ***Experience*** *[second round] also usually increases the speed with which students solve the puzzles. So, experience increases productivity. Employers look for people with schooling [knowledge], experience, and a willingness to learn.)*

2. Have the students read the *Introduction* to Theme 2 and the *Warm-Up, Fitness Vocabulary, Muscle Developers*, and *Showing Your Strength* of Lesson 3 in *Student Workouts*. Discuss the new terms, making sure the students understand the new terminology.

3. Demand for Labor in Various Occupations

a. Explain that choosing the right career should be based upon a person's interests and abilities and upon the demand for certain occupations. For example, because the demand for workers who make and repair watches is very low, it would probably not be a good idea for the students to invest time and effort learning to make or repair watches. However, they would be wise to acquire skills, knowledge, and experience in fields of interest that are in high demand: computer technology, health care, engineering, etc.

b. Have the students look at Exercise 3.1, *Demand for Labor in Various Occupational Areas* in *Student Workouts*, and discuss the data with the class. Ask the students to suggest reasons for the projected growth or decline in the demand for various fields of work. *(Answers will vary, but the students should observe that occupations in technology and services are expected to be more abundant than occupations in manufacturing and agriculture. In the United States, demand for occupations that require more mental than physical labor seems to be growing.)*

c. Explain that knowing which occupational areas are expected to grow can help the students plan the direction to take in their own career preparation. Aiming toward high-demand occupations can provide more opportunities when the time comes to enter the world of work, and investing in their human capital through education and training can make students more marketable in the workplace.

d. Remind the students that they should also consider their own interests, aptitudes and goals when making career choices. For example, even though the demand for agricultural workers may not be growing, people with certain kinds of human capital and interests are needed to replace those who leave the job or retire.

e. Divide the class into groups of four or five students and have them work together to calculate the percent of projected increase or decrease in the occupational areas listed in Exercise 3.1. Students who are familiar with the use of spreadsheets might wish to use a computer to perform the calculations and then create graphs depicting the results. *(Answers shown in Visual 3.3.)*

f. Have each student create a small poster depicting the change in one of the 32 interest areas. The poster should include a graph and a short paragraph expressing the student's interpretation of the data.

g. Review with students the ideas that investing in human capital and being aware of the demand for certain occupations are the first steps toward making career choices. The next step is an assessment of their own likes and dislikes.

4. Occupational Self-Assessment

a. Have students complete Exercise 3.2, *Self-Assessment*, as an independent assignment. After they have analyzed their aptitudes for several career clusters, engage the class in a discussion of the results of their surveys.

b. Remind the students that choosing a career—just like any other choice—involves an opportunity cost. For example, if a student chooses to be a doctor, she or he must give up the opportunity to be a forest ranger at the same time.

c. Explain that every job requires skills. Display Visual 3.4, *Scans Skills,* and discuss.

d. Point out that most employers spell out the requirements necessary for success in their companies.

e. Have the students read one or two classified ads in Exercise 3.3 and discuss the skills required.

f. Have the students work independently to complete Exercise 3.3, *Human Capital and SCANS on the Job. (Answers will vary. Accept any response that the students can logically defend. Suggested answers are given below. The letters the students write should adequately describe how their human capital satisfies the job requirements.)*

5. The Role of the Entrepreneur

a. Explain that choosing a career often means working for a small company or a big corporation, but it can also mean working for yourself. Define *entrepreneur* as an innovator who takes a risk to create a business in order to earn a profit. Explain that entrepreneurs provide goods and services that add variety and choice to the marketplace. Entrepreneurs also provide jobs.

b. Display Visual 3.5, *The Role of the Entrepreneur in the Economy,* and discuss.

c. Explain that entrepreneurs are risk-takers. When they choose to work for themselves, their opportunity cost is the security of a guaranteed paycheck every week.

d. Have the students work in pairs to complete Exercise 3.4, *How Do Entrepreneurs Earn a Living? (Answers: A. Dimitrio would earn $3,360 a month at his old job, which would have included his insurance and retirement. His expenses in his new business were $26,465 in July; therefore he must have earned $29,825 in July to pay his expenses and pay himself $3,360. [$3360 + 26,465 = $29,825] B. Answers will vary. If Dimitrio was tired of working for someone else, running his own business and being his own boss may be best for him. However, when an entrepreneur assumes greater risk [of failing, not earning a profit], a greater gain should be the reward. Dimitrio is not getting a greater monetary return for assuming more risk, so perhaps it is not worth the risk. BONUS: Dimitrio's salary was 11.3% of his July revenues. [$3,360 ÷ 29,835 = .1126 × 100 = 11.3%.])*

Answers to Exercise 3.3

SCANS Skills	Ad Number	SCANS Skills	Ad Number
Basic Skills	1, 7, 8	Problem Solving	5, 7, 9, 10
Interpersonal Skills	1, 4, 6	Good Work Ethic	2, 10
Teamwork	2, 3, 4, 7	Experience	2, 5, 6, 8
Use Technology	1, 4, 5, 7, 8, 9, 10	Organizational Skills	2, 4, 6, 9
Communication	1, 3, 7, 9, 10		

COOL DOWN

1. Review the following questions with the students:

   a. **What is human capital?** *(Human capital includes the intellect, knowledge, experience, skills, and attitudes that a person possesses or learns.)*

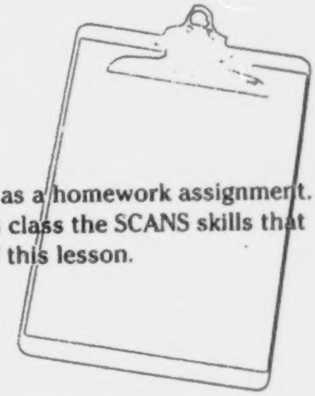
   b. **What are some ways to develop your human capital?** *(Education and work experience develop human capital.)*

   c. **Why should you look at the demand for an occupation when you consider making a career choice?** *(To determine whether jobs will be available after you have prepared for that career.)*

   d. **What other things besides demand for an occupation should you consider when making a career choice?** *(The occupations most interesting to you, and the occupations in which you have an aptitude.)*

   e. **What are some major differences between being an employee and being an entrepreneur?** *(An employee works for someone else and does what the employer wants him or her to do. An entrepreneur chooses his or her work and may hire others to work in the business. Employees receive wages or salaries for their work; entrepreneurs take a risk and earn income from profits [or lose money].)*

Assessment



Students should complete Assessment 3.1 in *Student Workouts* as a homework assignment. When the assignment is complete, have the students review in class the SCANS skills that Kelly did not exhibit. The answer key is provided at the end of this lesson.

Other Training Equipment

An annotated bibliography and Internet resources are available on our web site, **www.ncee.net**, as well as in *The Parents' Guide to Shaping Up Your Financial Future.*

Visual 3.1

What Is Human Capital?

Human capital includes the intellect, knowledge, experience, and attitude necessary for success.

Human Capital Needed for These Occupations:

Pilot	Marine Biologist	Web Designer	TV Reporter

Visual 3.2

Human Capital Score Sheet

	GROUP A	GROUP B
Round 1	0:00 – 1:00 Minute	
	1:01 – 2:00 Minutes	
	2:01 – 3:00 Minutes	
	3:01 – 4:00 Minutes	
	4:01 – 5:00 Minutes	
	5:00 Max Minutes	
Optional Round 2	0:00 – 1:00 Minute	
	1:01 – 2:00 Minutes	
	2:01 – 3:00 Minutes	
	3:01 – 4:00 Minutes	
	4:01 – 5:00 Minutes	
	5:00 Max Minutes	

- ▲ Who solved the codes faster? Why?
- ▲ What can you say about the effect of information and knowledge on human capital?
- ▲ If you completed Round 2, what can you say about the effect of experience on human capital?

Visual 3.3

Answers to Demand for Labor in Various Occupational Areas

A	B	C	D	E
INDUSTRY	Actual Number Employed in 1998	Projected Number Employed in 2008	Change in Number [illegible] 1998–2008 [illegible] Column [illegible] Indicate + or –	Percentage Change 1998–2008 (Column D [illegible] Column B) Indicate + or –
Education	11,174,900	12,884,700	1,709,800	15.3%
Hospitals	4,909,200	5,284,900	375,700	7.7%
Savings institutions	1,904,900	1,932,000	27,100	1.4%
Federal government	1,819,100	1,654,600	–164,500	–9.0%
Nursing facilities	1,762,000	2,212,900	450,900	25.6%
Computer services	1,599,300	3,471,300	1,872,000	117.1%
Agriculture, forestry, fishing	1,154,000	1,006,200	–147,800	–12.8%
Legal services	972,500	1,200,000	227,500	23.4%
Engineering	905,200	1,140,000	234,800	25.9%
Residential care	745,700	1,171,000	425,300	57.0%
Child care	604,500	800,000	195,500	32.3%
Apparel manufacturing	547,100	650,000	102,900	18.8%
TV, radio, music stores	500,300	639,800	139,500	27.9%
Newspapers	442,500	401,000	–41,500	–9.4%
Beauty salons	410,500	465,000	54,500	13.3%
Non-store retailers	346,400	537,200	190,800	55.1%
Medical supplies	279,100	334,600	55,500	19.9%
Advertising	268,200	323,200	55,000	20.5%
Radio & TV broadcasting	246,900	253,000	6,100	2.5%
Railroad transportation	230,700	184,900	–45,800	–19.9%
Retail bakeries	206,400	247,700	41,300	20.0%
Personal credit	185,200	246,600	61,400	33.2%
Cable and pay TV	181,000	230,000	49,000	27.1%
Video tape rental	165,300	184,900	19,600	11.9%
Knitting mills	159,400	127,800	–31,600	–19.8%
Motion picture theaters	138,100	135,200	–2,900	–2.1%
Commercial sports	126,500	160,000	33,500	26.5%
Funeral services	99,400	110,100	10,700	10.8%
Museums and zoos	92,600	131,400	38,800	41.9%
Coal mining	91,600	59,400	–32,200	–35.2%
Luggage and leather	45,400	34,400	–11,000	–24.2%
Tobacco products	40,600	29,500	–11,100	–27.3%

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Visual 3.4

SCANS Skills

The Secretary's Commission on Achieving Necessary Skills (SCANS) report from the United States Department of Labor, presented a national model of skills that every worker needs in order to be productive and successful.

The SCANS skills include:

BASIC SKILLS:

- △ Reading, writing, math, listening

OTHER SKILLS:

- △ Interpersonal skills
- △ Team work
- △ Use of technology and other resources
- △ Communication (both oral and written)
- △ Problem solving
- △ Organizational skills
- △ Positive attitude/good work ethic

SCANS Competencies describe a person's **human capital**— a combination of intellect, knowledge, experience, and attitude.

Visual 3.5

The Role of the Entrepreneur in the Economy

Entrepreneurs are innovators

They observe an opportunity.

They create new goods and services.

They improve existing products.

Entrepreneurs provide choice

They add goods and services to the marketplace.

They offer variety.

They design different approaches to familiar problems.

Entrepreneurs provide jobs

They hire workers for their businesses.

They consume resources, thus providing jobs in the industries that supply those resources.

Entrepreneurs help the economy grow.

ACTIVITY 3.1A

Success Depends Upon Human Capital (Group A)

Each sentence below is written in code. **CLUE:** The last word in the mixed-up sentence is the first word in the real sentence. The first word in the mixed-up sentence is the second word in the real sentence. (Example: if the mixed-up sentence is **Prefer butter instead candy of cookies peanut I**. The real sentence would be **I prefer peanut butter cookies instead of candy**. The words are numbered below to show you how it works.)

2	4	6	8	7	5	3	1
Prefer	butter	instead	candy	of	cookies	peanut	I

Rewrite the deciphered message below each coded one. Raise your hand when you are finished, and when your teacher calls out your time, write it in the blank at the bottom of the page.

Rock last was great really Saturday concert the.

Uncle a red car sports new bought my.

Person my has ton freckles of a family in every.

Enjoy video with friends my games playing I.

The our became with umpire the angry coach game during.

MY TIME ______________________

ACTIVITY 3.1B

Success Depends Upon Human Capital (Group B)

Each sentence below is written in code. Rewrite the deciphered message below each coded one. Raise your hand when you are finished, and when your teacher calls out your time, write it in the blank at the bottom of the page.

Rock last was great really Saturday concert the.

Uncle a red car sports new bought my.

Person my has ton freckles of a family in every.

Enjoy video with friends my games playing I.

The our became with umpire the angry coach game during.

MY TIME ____________________

ACTIVITY 3.2A

OPTIONAL

Success Depends Upon Human Capital (Group A)

Each sentence below is written in code. **CLUE: The last word in the mixed-up sentence is the first word in the real sentence. The first word in the mixed-up sentence is the second word in the real sentence.** (Example: if the mixed-up sentence is **Prefer butter instead candy of cookies peanut I.** The real sentence would be **I prefer peanut butter cookies instead of candy**. The words are numbered below to show you how it works.)

2	4	6	8	7	5	3	1
Prefer	butter	instead	candy	of	cookies	peanut	I

Rewrite the deciphered message below each coded one. Raise your hand when you are finished, and when your teacher calls out your time, write it in the blank at the bottom of the page.

My bakes the house delicious smells whole bread mom when.

The near house is new field soccer a there my park at.

Garage cluttered old and mowers lawn bikes with is our.

The grade our wore tuxedo a principal dance eighth at.

Science learned to hydrogen oxygen and separate how we in.

MY TIME ____________________

ACTIVITY 3.2B

Success Depends Upon Human Capital (Group B)

OPTIONAL

Each sentence below is written in code. Rewrite the deciphered message below each coded one. Raise your hand when you are finished, and when your teacher calls out your time, write it in the blank at the bottom of the page.

My bakes the house delicious smells whole bread mom when.

The near house is new field soccer a there my park at.

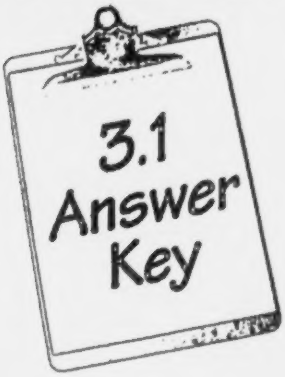
Garage cluttered old and mowers lawn bikes with is our.

The grade our wore tuxedo a principal dance eighth at.

Science learned to hydrogen oxygen and separate how we in.

MY TIME ______________________

ASSESSMENT



What's Wrong With This Picture?

Have the students complete Assessment 3.1 as an independent assignment. (Answers are given below in bold.)

Kelly is a seventh grader at Middleville Middle School. Her first class begins at 8:05, so she sets her alarm for 7:30. That way she's out of the kitchen door at 7:50 and **ready for her 20-minute walk to school. (G)** Yesterday, when she entered the building, she saw the principal, Ms. Ramirez.

"Yo," (E) Kelly shouted. "What's happenin'?"

"You're late, Kelly," said the principal, frowning.

"Whatever!" (E) replied Kelly, as she raced down the hall.

In class, Kelly ruffled through her book bag but **could not find any pens, pencils, or paper. (H)** When Mr. Choy asked for her math assignment, she didn't have that either.

"You'll have to go to the office," Mr. Choy told her.

In the principal's office, Kelly was asked to answer the phone while one of the secretaries stepped out. When the phone rang, Kelly picked it up.

"Hey, man, this is Middleville school. Whaddya want?" (E) she said.

The caller hung up, but Kelly could not figure out why. She decided to leave a note for the secretary. It said: **"Deer Sekretery, Somebody called and hung up. I dont no who it was." (A)**

When the phone rang again, Kelly said, **"Whooze zis?" (E)**

"Please have Ms. Ramirez call the superintendent's office by 9:30."

"Okay, okay," said Kelly. On a piece of scrap paper she wrote: "Ms. Ramirez—**go to the custodian's office after 9:30." (A)**

"Kelly, you need to keep a good record of the calls," said the school clerk.

"You can't tell me what to do," shouted Kelly. **"I'm doin' ya a favor by helpin' ya out." (B)**

The next day when Kelly woke up, it was dark in her bedroom. She flipped the switch about ten times, but her lamp would not light.

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"Hey, what's wrong with my lamp?" she yelled to her mother.

"Maybe the bulb burned out," her mother suggested.

"Oh, I never thought of that," (F) said Kelly.

Kelly was upset, so she decided not to go to school. **"Let's see, that's 15 days absent so far this year. That ain't too bad." (G)**

When Kelly returned to school her social studies teacher, Ms. Musielewicz, sent her to the computer lab to do some research for a big project. In the lab, Kelly was clueless. **She did not even know how to turn on the computer. (D)** The lab assistant tried to help her, but Kelly just shrugged.

"I took that stupid computer class last year, but I didn't like it. Besides, I'm gonna be a mechanic when I'm done with school. **I don't need no computer skills." (E)**

Finally, it was the last period of the day—gym class. The substitute teacher was assigning the students to teams for basketball. When Kelly got the ball, she dribbled down the floor and tried to shoot, even though she was surrounded by players from the other team.

"Pass. Pass the ball!" shouted the teacher.

But Kelly just tried to shoot again and was blocked by another player. Every time she got the ball, Kelly tried to shoot. **She never passed to another player. (C)**

When the bell rang at the end of the day, Kelly grabbed her book bag and ran out of the building. On the way home she stopped at the store and bought a candy bar for $0.55, giving the clerk a one-dollar bill.

"With tax, that's 59 cents. Your change is 31 cents," the cashier said, handing Kelly a quarter, a nickel and a penny.

"Hey," said another shopper. "That's not the right change."

"Sure it is," shrugged Kelly. **"It must be. The man said it was." (A)**

When Kelly got home, her mother asked how things went at school.

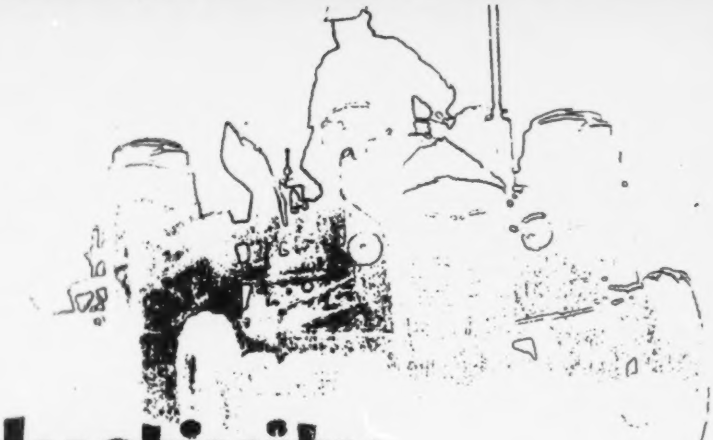
"All right, I guess," she replied. "But I can't wait to finish and get a job. Then I can do anything I want."

Responses to the last section: the advice to Kelly will vary. The students should list ways for Kelly to improve her SCANS skills through education, experiences, and investment in her own human capital.

THEME 2

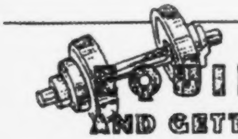
LESSON

4



Productivity

Fitness Focus



EQUIPMENT AND GETTING READY!

Make overhead transparencies of the visuals listed here.

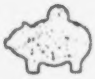
- ✔ Visual 4.1, *The Story of Mike and Chris, Inc.*
- ✔ Visual 4.2, *Increasing Productivity of Workers*
- ✔ Visual 4.3, *Checks*
- ✔ Introductory reading for Lesson 4 *(Shaping Up Your Financial Future Student Workouts)*
- ✔ Exercise 4.1, *The Whole Story (Shaping Up Your Financial Future Student Workouts)*
- ✔ Assessment 4.1, *Career Search (Shaping Up Your Financial Future Student Workouts)*
- ✔ Family Activity 4, *What Do You Really Do At Work? (The Parents' Guide to Shaping Up Your Financial Future)*
- ✔ Calculators

LESSON DESCRIPTION

In this lesson, the students examine ways to develop their human capital, that is, their value as a human resource. They discover that by developing their human capital, they make themselves more productive. They also find that they can be more productive by using capital resources, the tools of their trade. The more productive they become as a human resource, the more valuable they will become to their employer. Ultimately, they find that the more valuable they are to their employer, the greater their income will usually be. With greater income, the consumer can have a higher standard of living.

This lesson is correlated with national standards for mathematics and economics as well as the national guidelines for personal financial management as shown in Tables 1 through 3 in the front of the book.

ECONOMIC AND PERSONAL FINANCE CONCEPTS



Capital resources, human capital, wage, productivity

Student Objectives

At the end of this lesson, the student will be able to:

- ✔ Give examples of capital resources used in various careers.
- ✔ Explain in what ways the use of capital resources increases productivity.
- ✔ Explain ways in which productivity can be increased.
- ✔ State the human capital required for particular jobs.
- ✔ Explain how those skills are acquired.

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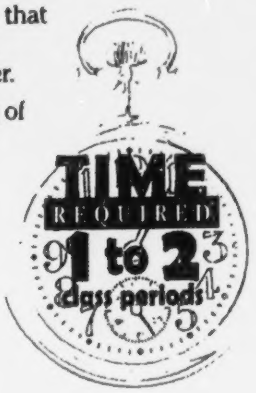
PARENT CONNECTION

Family Activity 4 in *The Parents' Guide* is an interview form that a student should use to interview one or both parents about the job each holds. You may want students to synthesize the findings of their interview in a written paper.

The Parents' Guide is a tool for reinforcing and extending the instruction provided in the classroom. It includes:

1. Content background in the form of frequently asked questions.
2. Interesting activities that parents can do with their son or daughter.
3. An annotated listing of books and Internet resources related to each theme.



Workout

WARM-UP

1. Introduce the lesson by asking the students what workers receive in return for their work. The returns might include self-gratification and self-esteem. The economic return to labor is wages and benefits. Display Visual 4.1, *The Story of Mike and Chris, Inc.*, and explain that some workers are more valuable to an employer than others.

2. Point out that Yolanda considered Mike to be more productive than Chris because Mike could accomplish more work than Chris in the same amount of time while using the same amount of resources. Workers can increase their productivity in a variety of ways.

EXERCISE

1. Increasing Productivity

a. Display Visual 4.2, *Increasing Productivity of Workers*, and explain that employees can use capital resources to increase their productivity. *Capital resources* are goods produced for the purpose of producing other goods and services. For instance, a hammer is a capital resource. A hammer is produced to aid in construction.

b. Explain that developing human capital can also increase productivity. *Human capital* is the combination of education, skills, and talents a worker gathers over time. The development of human capital enhances your value as a worker. Imagine that on the day you were born, you were given a large, empty box. Now imagine that as you completed each grade level, you were able to place all of the skills you acquired in the box.

c. Ask the students what types of skills they would have in their box at this time in their lives. *(Reading skills, math skills, social skills, critical thinking skills, and athletic skills.)* Explain that they will acquire many other skills by the time they are looking for their first full-time jobs. At that time, they will present their skill set to their employers as if they were offering their employers a gift box of skills that the employers could use to build their businesses.

d. Explain that the quality of workers' human capital will likely determine their level of income. In general, the better-educated people are, and the more skills they acquire, the more valuable those employees are. The employer will compensate workers according to the skills they bring to their jobs.

e. Remind the students that their human capital contributes to their productivity. Ask them to recall that Mike was more productive at cutting grass than Chris was. Ask the students to imagine a situation where Mike and Chris are not in business together, but rather competing for the same $8.00 per hour grass-cutting job. Which of the boys would get the job? *(Mike would be more likely to be hired when productivity in grass cutting is the determining factor.)*

f. Explain that when people acquire higher levels of education or practice their skills, they are investing in their human capital. They are investing in themselves.

g. Direct the students to Exercise 4.1, *The Whole Story*, and explain that they are going to read more about Mike and Chris's grass-cutting service.

h. Discuss the questions in Exercise 4.1. The students might suggest that Chris was not as tall or strong as Mike, or that he was lazy. However, Chris had a different skill set that allowed him to be a productive worker. Even though Mike cut the grass more quickly, it was Chris who had the social and business skills that allowed him to approach customers and sell the service. Summarize the discussion by explaining that people have different physical and personal qualities that can make them better suited for some jobs than for others.

i. Have the students read the *Warm-Up*, *Fitness Vocabulary*, *Muscle Developers*, and *Showing Your Strength* of Lesson 4 in *Student Workouts*. Ask questions of the students to determine their understanding of the concepts.

2. Checks

a. Display Visual 4.3, *Checks*. Explain that this is a math exercise to demonstrate productivity. In this exercise, the students begin with a number and multiply it by 2 to get a product. Then, they multiply the product by 3, then by 4, and so on, until they reach the final multiplier assigned by the teacher. Then, they divide that final product by 2, then 3, then 4, and so on until they reach the number initially used in the multiplication. Point out this scheme on the visual.

b. Separate the students into pairs. Ask one student in each pair to act as timekeeper and one to volunteer to do a check. Depending on how much time you have available and the skill level of your students, give the volunteers a starting number of one or two digits and have them multiply and divide by a number between 5 and 10. Instruct each volunteer's partner to time him/her and record the number of minutes it takes the volunteer to complete the check correctly. DO NOT ALLOW CALCULATORS.

c. Explain to the students that they have applied skills they developed through education. Education is one way that people can increase their human capital.

d. When all volunteers have completed the check, instruct them to do the **exact** same problem again. Have timekeepers record the time it takes this time. The students will likely have completed the calculations in less time than in the first round.

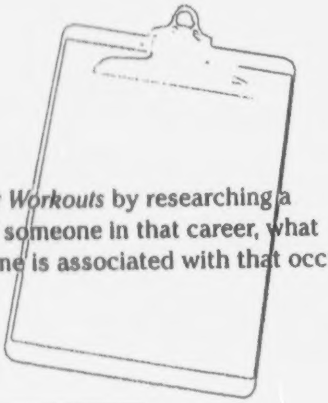
e. Explain that the students were able to complete their calculations more quickly this time through practice. Human capital can be enhanced through practice. The more you practice a skill, the better you will become. Employers recognize this. When you are newly employed, your employer expects that you will need time to develop your productivity. With practice doing the job, you will become more proficient.

6. Now offer the students calculators. Explain that you want to see the difference that capital investment can make in the students' productivity. Once again, have the timekeepers record the time it takes their partners to complete the calculations. If time permits, allow the students to do this exercise twice, to demonstrate once again the value of practice in developing human capital.

COOL DOWN

Review the lesson by asking the following questions.

1. **What is human capital?** *(The combination of education, skills, and talents that enhances your value as a worker.)*
2. **Why does investment in your human capital increase your possibility for greater future income?** *(Employers are willing to pay more for skilled workers, because they are more productive.)*
3. **How do capital resources increase productivity?** *(Capital resources allow workers to get work done more efficiently.)*
4. **How can you increase your human capital?** *(Answers will vary, but the students should recognize that they must acquire education, practice their skills, and develop their talents.)*

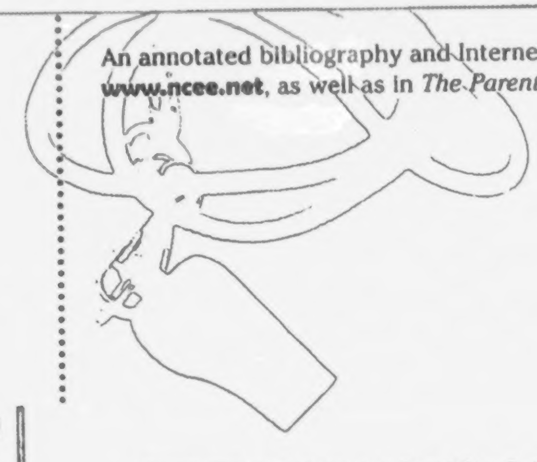


Assessment

The students should complete Assessment Activity 4.1 in *Student Workouts* by researching a career choice. They should determine what skills are required of someone in that career, what capital resources are used in that career, and what level of income is associated with that occupational choice

Other Training Equipment

An annotated bibliography and Internet resources are available on our web site, **www.ncee.net**, as well as in *The Parents' Guide to Shaping Up Your Financial Future.*



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Visual 4.1

The Story of Mike and Chris, Inc.

Mike and Chris had a grass-cutting business. Week after week, Mike and Chris cut the grass at a ball field. They had identical lawn mowers, began their cutting at the same time, and worked for two hours.

However, when they were through cutting the ball field, Mike had cut three-fourths of the field while Chris had cut only one-fourth. The ball field owner, Yolanda, commended Mike for his productivity.

Visual 4.2

Increasing Productivity of Workers

Use of capital resources

Capital resources are goods produced for the purpose of producing other goods and services. For instance, a hammer is a capital resource. A hammer is produced to aid in construction. It is much more effective than using a rock. A hammer increases the productivity of construction workers.

Investment in human capital

Human capital is the combination of education, skills, and talents a worker gathers over time. Knowing how to use new equipment (capital) and efficient procedures increases productivity.
The development of your human capital enhances your value as a worker.

Visual 4.3

Checks

$2 \times 2 = 4$

$4 \times 3 = 12$

$12 \times 4 = 48$

$48 \times 5 = 240$

$240 \div 2 = 120$

$120 \div 3 = 40$

$40 \div 4 = 10$

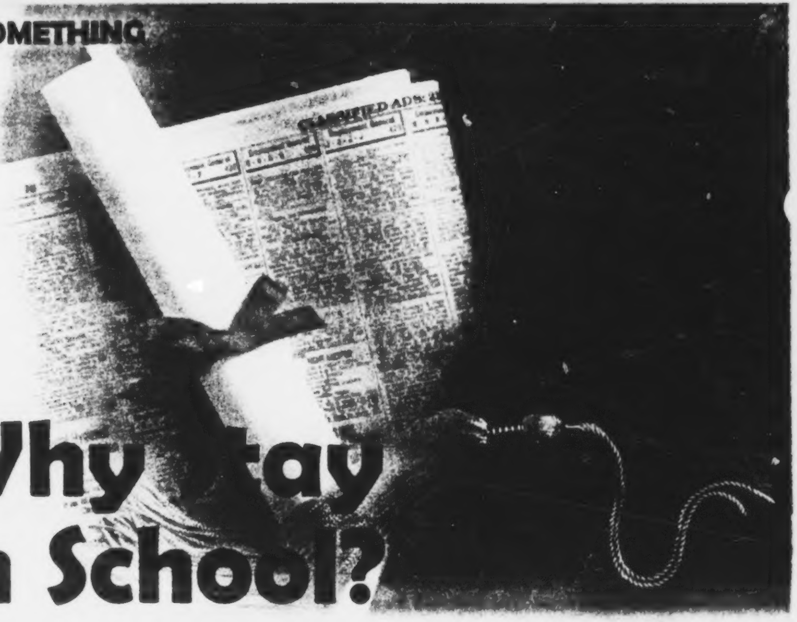
$10 \div 5 = 2$

EDUCATION PAYS OFF: LEARN SOMETHING
(EARNING INCOME)

THEME 2

LESSON

5



Why Stay in School?

Fitness Focus

EQUIPMENT AND GETTING READY!

Make overhead transparencies of the visuals listed here.

- ✔ Visual 5.1, ***Steps to Success***
- ✔ Visual 5.2, ***Uneducated = Unemployed***
- ✔ Visual 5.3, ***An Employer's Perspective***
- ✔ Introductory reading for Lesson 5 ***(Shaping Up Your Financial Future Student Workouts)***
- ✔ Exercise 5.1, ***Some Things About School Are So... (Shaping Up Your Financial Future Student Workouts)*** (This is also used as a Parent Activity)
- ✔ Exercise 5.2, ***Steps to Success (Shaping Up Your Financial Future Student Workouts)***
- ✔ Calculators (one per student)
- ✔ Unlined paper (one piece per student)

LESSON DESCRIPTION AND BACKGROUND

In this lesson, the students are encouraged to weigh costs and benefits when making decisions about education. The students will recognize that, on average, the higher the educational attainment, the greater the level of income one can expect. They will also discover that as people advance in their education, they are less likely to suffer unemployment.

This lesson is correlated with national standards for mathematics and economics as well as the national guidelines for personal financial management as shown in Tables 1 through 3 in the front of the book.

ECONOMIC AND PERSONAL FINANCE CONCEPTS

income, opportunity cost, costs, benefits

Student Objectives

At the end of this lesson, the student will be able to:

- ✔ Explain the benefits associated with levels of educational attainment.
- ✔ Explain the costs associated with levels of educational attainment.
- ✔ Define *opportunity cost* and explain the opportunity cost of dropping out of school.

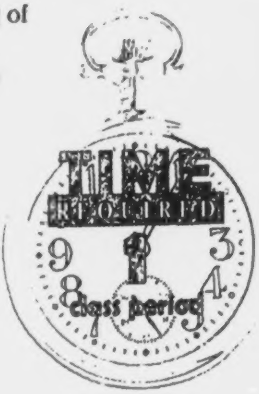
PARENT CONNECTION

There is no specific family activity worksheet for this lesson in *The Parents' Guide.*

Exercise 5.1, *Some Things About School Are So...* in *Student Workouts* asks for parental involvement in the exercise. The student is asked to describe school activities that range from easy to difficult. The students are to work with their parents to list ways the students could increase their aptitude in the areas that they find difficult. Ask the parents and students to work together on developing a plan of action, including a timetable for improvement.

The Parents' Guide is a tool for reinforcing and extending the instruction provided in the classroom. It includes:

1. Content background in the form of frequently asked questions.
2. Interesting activities that parents can do with their daughter or son.
3. An annotated listing of books and Internet resources related to each theme.



Workout

WARM-UP

1. Begin the lesson by asking the students to draw a set of stairs, with at least five steps, from a side view. They should use only a pencil and unlined paper, no ruler or other guide. When they have completed their drawings, instruct them to use their rulers to measure the vertical distance between each step by measuring the riser for each step. Have them write the measurement of each step by the riser. Ask how many students drew a set of stairs where the riser measurements were the same for each step. (Concentrate on the number of students who have unequal risers.)
2. Ask all the students who think of school as an uphill climb to raise their hands. Explain that becoming educated *is* like climbing a set of stairs. However, the stairs the students climb to get an education are more like the stairs the students drew than the perfectly measured stairs we climb in our homes or in school. Some subjects in school and some levels of school take more effort; they require that we take bigger steps to reach the goal.
3. Instruct the students to take a brief self-inventory of the challenges they face in school. Refer them to Exercise 5.1, *Some Things About School Are So...* Direct the students to the columns headed, *Difficult*, *Comfortable*, and *Easy*. Under each column, have the students write any subjects, assignments, or skills related to their schoolwork that fall under these headings. For instance, some students might find math difficult, or may find just some area of math, such as word problems, difficult. They may find writing easy but the oral presentation of their writing to be difficult. They may have difficulty with personal traits, such as study skills. However, they may find neatness and organization easy to master. Help the students brainstorm as many areas as possible. Retain this sheet for the assessment and the parent involvement.
4. Explain that just as certain subject areas and certain tasks may be difficult, comfortable, or easy, different levels of education may also be more difficult than others; however, each level brings rewards.

5. Have the students take home the completed Exercise 5.1 to show their parents. Ask each student to work with his or her parent to develop a plan to deal with the difficult school aspects. A written report could be required.

EXERCISE

1. Have students read the *Warm-Up, Fitness Vocabulary, Muscle Developers*, and *Showing Your Strength* of Lesson 5 in *Student Workouts*. Focus on any concepts that are difficult for the students to understand.

2. Steps to Success

a. Display Visual 5.1, *Steps to Success*, and explain that this set of stairs represents different levels of educational attainment and the median income associated with each level. Note that the median level of income increases with each step, as do the students' knowledge and abilities.

b. Refer the students to Exercise 5.2, *Steps to Success* in *Student Workouts*, and ask them to complete question 1, which asks the students to calculate the difference in median income between each level of educational attainment *(a. $7,332; b. $4,732; c. $11,856; and d. $11,804)*. Point out that this is an annual difference. For instance, someone with a bachelor's degree earns, on average, $11,856 more every year than the person with an associate's degree.

c. Note that the median level of income for a high school dropout is $18,876. Point out that this doesn't mean that someone who drops out of school at age 16 will earn $18,876. The *median wage* (for all working people without a high school diploma) means that half of those people earn more than this amount and half earn less than this amount.

d. Explain that at a certain age, depending on your state laws, the students can choose to get off the steps. They can simply stop at the first step, after completing, say, the tenth grade, and move into the labor force. Or they can continue, step by step, to reach some other goal. Each step represents a benefit as well as a cost.

e. Define *marginal benefit* as the additional benefit that would be obtained from one more unit of some good or service. In the case of education, the marginal benefit could be the additional income per year that would result from one more year of education. The marginal benefit of education could also be measured by the attainment of additional skills that could result in additional challenges or additional job satisfaction. Point out that this marginal benefit would occur for every year of their working life.

f. Refer the students back to Exercise 5.2. Instruct them to calculate the lifetime earnings at each level of educational attainment (Question 2). Answers are in the table below.

Answers for calculation of lifetime earnings at different levels of education.

	H.S. dropout	H.S. diploma	Associate's degree	Bachelor's degree	Advanced degree
Annual Income	$18,876	$26,208	$30,940	$42,796	$54,600
Years worked	54	52	50	48	46
Life earnings	$1,019,304	$1,362,816	$1,547,000	$2,054,208	$2,511,600

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g. Direct the students' attention to someone who has dropped out of high school after tenth grade and someone who has graduated from high school. Assuming a working life of 52 years for the high school graduate and 54 years for the dropout, the students should find that the dropout's lifetime earnings is $1,019,304 (54 × 18,876), while the high school graduate's lifetime earnings is $1,362,816 (52 × 26,208). Ask the students to state the difference in lifetime earnings ($343,512). Explain that the cost of dropping out of school is the difference in lifetime earnings. In this case, it is $343,512, or approximately a 25 percent drop (343,512 ÷ 1,362,816) in lifetime earnings for the high school dropout.

h. Explain an even more distressing point about high school dropouts; they are twice as likely to be unemployed. Direct the students to Visual 5.2, *Uneducated = Unemployed*. Explain that these are the 2000 United States average unemployment rates by educational attainment. Ask the students to note the unemployment rate for people who attended only one-to-three years of high school and compare that figure with the unemployment rate for high school graduates. Ask the students to speculate as to why the unemployment rate would be so much higher for those who had not completed high school. Prompt the students by asking what an employer's impression of a high school dropout might be.

i. Display Visual 5.3, *An Employer's Perspective*. Ask the students if these are fair assessments on the employer's part. *(The students will likely indicate these assessments are unfair.)* Allow discussion, but explain that in the final analysis, employers have little to go on when hiring someone. So they use certain measures, such as educational attainment, to determine who is likely to be a good employee. If a high school graduate and a high school dropout apply for the same job, and if their other attributes, such as skills or work experience, are equal, it is almost a certainty that the high school graduate will get the job.

j. Explain that the class has examined the benefits of staying in school, but they should know that there are also costs. Ask the following questions:

- ▲ **What full-time jobs might be available to someone who is 17 years old?** *(Retail clerk, fast food worker, car wash worker, etc.)*
- ▲ **What is the average hourly wage paid to people starting in those positions?** *(Answers will vary, but the students should recognize that wage rates for these jobs vary from minimum wage to $8.00 per hour.)*

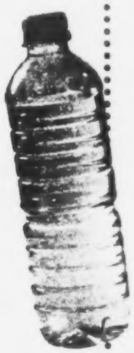
k. Explain that at 40 hours per week, and 52 weeks per year, it is possible to work 2,080 hours per year. Tell the students to use the most optimistic point of this wage range, $8.00 per hour, and calculate the annual income. (2,080 × 8 = $16,640)

l. Explain that people use money and time to obtain additional education. Allocating money and time to education involves opportunity cost. Define *opportunity cost* as the next-best forgone alternative when a decision is made. The year's salary is the opportunity cost, or income forgone, if you attend school full time for the year.

m. Tell the students to assume the same wage for a second year and ask the opportunity cost of finishing high school ($16,640 + 16,640 = $33,280.) Ask the students to recall that a high school graduate will earn an average of $343,512 more than the dropout over a lifetime, and will work two fewer years. Ask the students whether the costs outweigh the benefits, or do the benefits outweigh the costs.

n. Explain that as the students move on to college, the costs become significantly higher. Annual tuition costs can range from about $8,000 at a public university to $18,000 or more at a private university. These figures do not include housing costs, because such costs occur regardless of whether the student is in school or not. Ask the students whether there are any other costs that must be considered when calculating the cost of attending a two-year college as a full-time student. *(Amount of forgone income that could be earned.)*

o. Refer the students to Visual 5.1. Explain that as people increase their educational attainment they also increase their income. Ask the students why the additional income could be important. *(Answers will vary. Guide the students to recognize that greater income allows them more goods and services, more choices, and greater financial security.)* Explain that higher educational attainment, in general, brings about greater income, which then brings about a higher standard of living. Also, greater educational attainment can bring about greater job satisfaction. People who have reached high levels of education generally have more choices in jobs.



COOL DOWN

1. Reinforce the concepts discussed in this lesson by asking the following questions:

a. At what level of educational attainment is there likely to be the greatest level of unemployment? *(The level of the high school dropout.)*

b. Why is the unemployment rate so much higher for the high school dropout? *(Answers will vary, but the students should recognize that the high school dropout is likely to be unskilled and that employers are less likely to believe a high school dropout can face the challenges of a job.)*

c. What are the benefits associated with increasing educational attainment? *(Greater income, higher standard of living, greater job satisfaction, more choices.)*

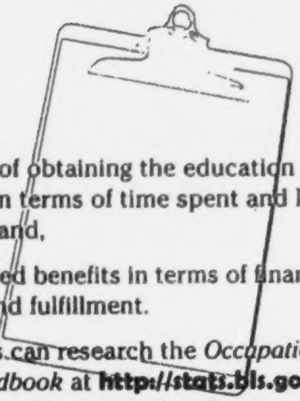
d. As people consider the benefits of increasing their educational attainment what must they also consider? *(The costs.)*

e. What is opportunity cost? *(The next-best forgone alternative.)*

f. What is the opportunity cost of staying in high school until graduation? *(The wages that could have been earned during that period.)*

g. In addition to forgone wages, what are some additional costs to attend college? *(Costs of tuition, fees, books, and supplies.)*

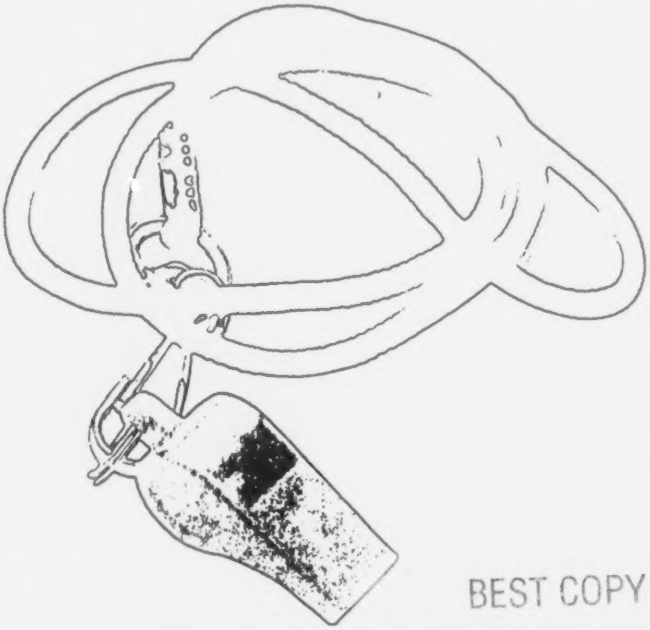
Assessment



1. Refer the student to Exercise 5.1, Some Things About *Schoolwork are So…* Explain to the students that their list in the "Easy" column probably contains their special aptitudes and skills. Using the information in this column, ask each student to write a list of occupations that require aptitude in the skills the student listed. Instruct the students to choose one of those occupations and write a brief essay stating the following:
   a. the level of education required for this occupation,
   b. the costs of obtaining the education required in terms of time spent and lost earnings, and,
   c. the expected benefits in terms of financial rewards and fulfillment.
2. The students can research the *Occupational Outlook Handbook* at **http://stats.bls.gov/ocohome.htm**. They may also discover the information they need by interviewing someone in the occupation they are considering.

Other Training Equipment

An annotated bibliography and Internet resources are available on our web site, **www.ncee.net**, or in *The Parents' Guide to Shaping Up Your Financial Future*.



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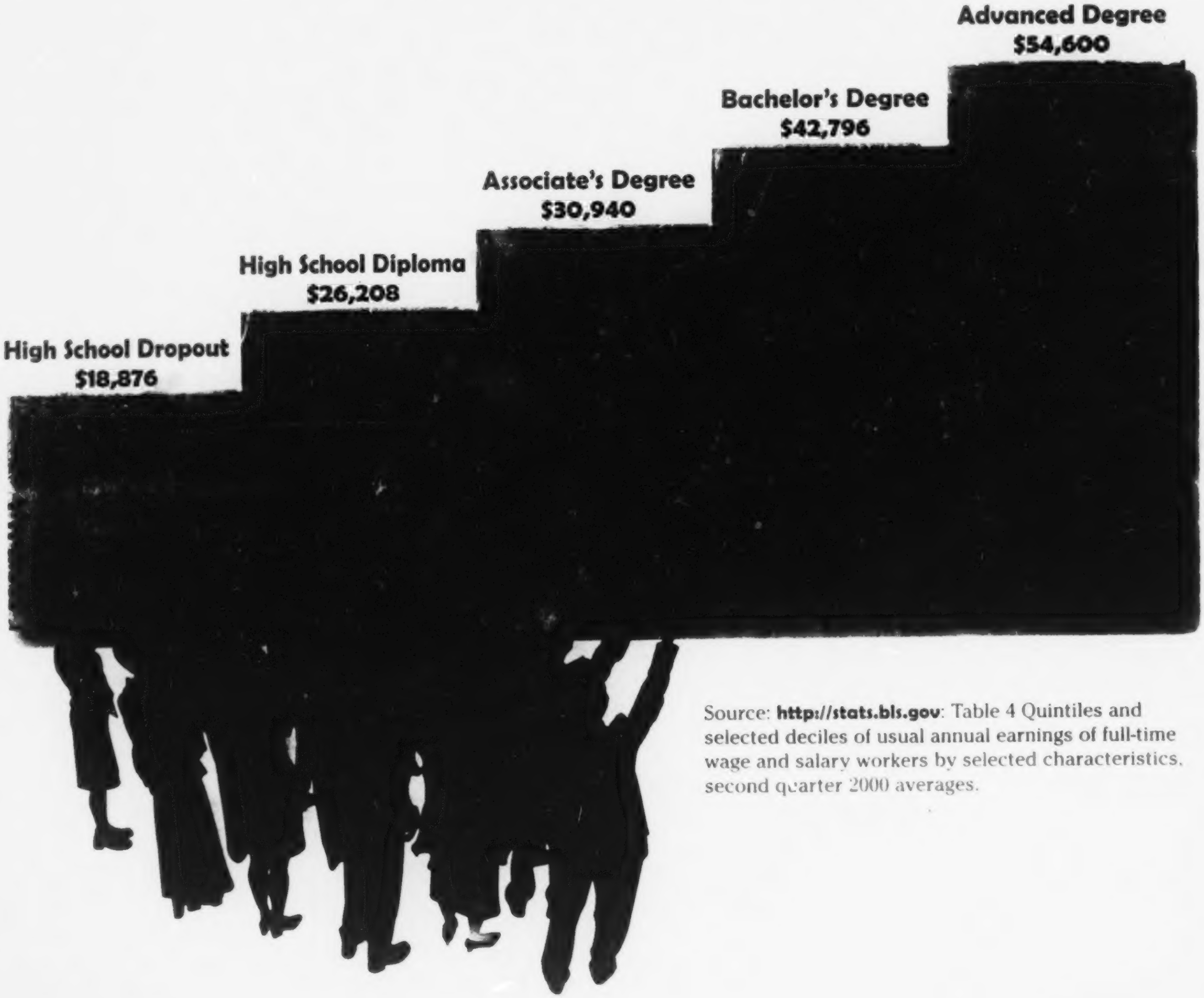
Visual 5.1

Steps to Success

(Median earnings of full-time wage and salary workers.)



Source: **http://stats.bls.gov**: Table 4 Quintiles and selected deciles of usual annual earnings of full-time wage and salary workers by selected characteristics, second quarter 2000 averages.

Visual 5.2

Uneducated = Unemployed

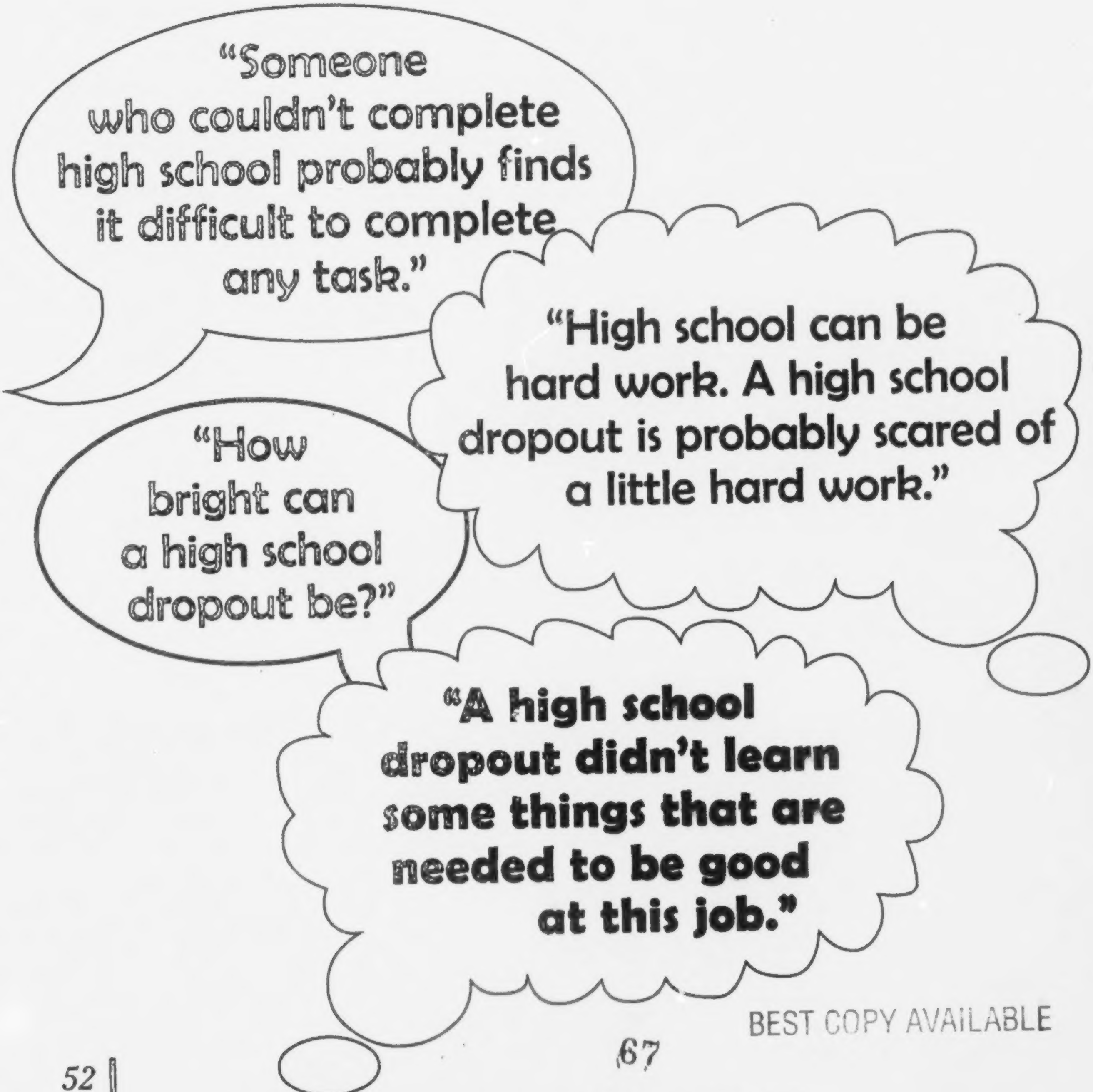
Unemployment rates by educational level

Less than a high school diploma	**6.1%**
High school diploma, no college	**3.7%**
Some college	**2.9%**
College graduate	**1.8%**

Source: **www.bls.gov**: Table A-3, Employment statistics of the civilian population 25 years and over by educational attainment August 2000.

Visual 5.3

An Employer's Perspective


"Someone who couldn't complete high school probably finds it difficult to complete any task."
"High school can be hard work. A high school dropout is probably scared of a little hard work."
"How bright can a high school dropout be?"
"A high school dropout didn't learn some things that are needed to be good at this job."

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TOMORROW'S MONEY: GETTING TO THE END OF THE RAINBOW (SAVING)

THEME 3

LESSON 6

Why Save?

Fitness Focus

EQUIPMENT AND GETTING READY!

Make overhead transparencies of the visuals listed here.

- ✔ Visual 6.1, *Short-, Medium-, and Long-Term Goals and Opportunity Cost*
- ✔ Visual 6.2, *Why It's Harder to Save for Long-Term Goals than for Short-Term Goals*
- ✔ Activity 6.1, *Game Cards for Rolling for a Goal*
- ✔ Introductory reading for Theme 3 and Lesson 6 *(Shaping Up Your Financial Future Student Workouts)*
- ✔ Exercise 6.1, *How To Reach A Goal (Shaping Up Your Financial Future Student Workouts)*
- ✔ Exercise 6.2, *Rolling For A Goal, A Game for Two or More Players (Shaping Up Your Financial Future Student Workouts)*
- ✔ Assessment 6.1, *Short-, Medium-, and Long-Term Goals (Shaping Up Your Financial Future Student Workouts)*
- ✔ Family Activity 5, *Savings and Goals (The Parents' Guide for Shaping Up Your Financial Future)*
- ✔ Scissors and a pair of dice for each group of four students
- ✔ Three 4" x 6" index cards for each student
- ✔ Sticky note or index cards

LESSON DESCRIPTION

In this lesson, the students learn about saving and investing, and they consider the importance of setting short-term, medium-term, and long-term savings goals. They use math skills to solve problems and they play a game called "Rolling For a Goal" to reinforce the concept of goal setting and working towards a goal. Finally, they engage in a family activity that focuses on the opportunity cost of saving.

This lesson is correlated with national standards for mathematics and economics as well as the national guidelines for personal financial management as shown in Tables 1 through 3 in the front of the book.

ECONOMIC AND PERSONAL FINANCE CONCEPTS

Short-term goals, medium-term goals, long-term goals, opportunity cost

Student Objectives

At the end of this lesson, the student will be able to:

- ✔ Recognize the importance of goal-setting.
- ✔ Define short-term, medium-term, and long-term goals.
- ✔ Use math to project savings goals.
- ✔ Identify the opportunity cost of saving.

TIME
REQUIRED
2
class periods

PARENT CONNECTION

Family Activity 5, *Saving and Goals*, asks the family to list some short-, medium-, and long-term goals that they have. The family is also asked to identify what they give up if they save toward each of these goals. There is a case problem also, *Test Your Financial Fitness*, in this family activity. Some answers include:

(This is a long-term goal because it will take six years to achieve [You are 15 and you want to save for the down payment on a house when you are 21.] You will not have enough money; you need $1400 more.

Explanation: 6 years × 52 weeks = 312 weeks to save. 312 weeks × $300 per week = $93,600 saved altogether. Ten per cent of $950,000 is $95,000 needed for down payment. $95,000 – $93,600 = $1,400 more is needed.)

The Parents' Guide is a tool for reinforcing and extending the instruction provided in the classroom. It includes:

1. Content background in the form of frequently asked questions.
2. Interesting activities that parents can do with their daughter or son.
3. An annotated listing of books and Internet resources related to each theme.

Workout

WARM-UP

1. Introduce the idea of goal setting by asking the students what steps they would take in a campaign to run for student council president. Remind the students that some campaign activities take place months before the election, while others must be completed just weeks or days prior to the voting.

a. Divide the class into small groups and allow about 10 minutes for each group to brainstorm ideas about "Things To Do To Prepare For An Election Campaign," recording each idea on a sticky note or index card (one idea per note).

b. On the board, draw five large circles, labeling them, from left to right, "Three months before election," "One month before election," 'Two weeks before election," "One week before election," "One day before election."

c. Invite the students to post their notes on the board in the appropriate circles.

d. Discuss reasons for the students' responses.

2. Explain that, like a campaign, saving for a goal also requires planning.

a. Ask the students what saving money means. *(Putting money aside from current income to buy something in the future.)*

b. Explain that people can save money in a jar at home or they can save in a bank or another financial institution. *(When people save in a bank, their money earns interest. The money they save becomes an investment; they will eventually have more dollars and cents than they deposited.)*

c. Ask why people save money. *(To get goods and services in the future that they may not be able to afford now, to have an emergency fund in case some catastrophe occurs, and to have money in the future for retirement when they are no longer working.)*

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d. Ask if any students are currently saving money and why they are saving? *(Answers will vary.)*

e. Explain that saving money requires short-term, medium-term and long-term planning.

EXERCISE

1. Short-, Medium-, and Long-Term Goals

a. Display Visual 6.1, *Short-, Medium- and Long-Term Goals and Opportunity Cost*, and review definitions with the class. Ask the students to suggest goods or services whose purchase might require short-, medium- or long-term savings goals. *(Answers will vary. Accept any reasonable responses.)*

b. Have the students explain why a short-term goal for one saver might be a long-term goal for another. *(The amount that can be saved in any time period varies depending upon an individual's income, earnings, and expenses.)*

c. Display Visual 6.2, *Why It's Harder to Save for Long-Term Goals Than for Short-Term Goals.*

d. Explain that long-term goals are usually more difficult to meet than are short-term goals. When a person is saving for more than three years, there is more time for emergencies or consumer expenditures to present themselves before the savings goal is met. If the emergency or the expenditure is valued more highly than the savings goal, the goal may be abandoned in favor of the other alternative. In economic terms, the opportunity cost of saving might be greater than the opportunity cost of the emergency expenditure.

e. Explain that saving goals depend upon how much has to be saved and how much time is available for saving.

f. Have the students read the *Introduction* to Theme 3 and the *Warm-Up* and *Fitness Vocabulary* of Lesson 6 in *Student Workouts*. Discuss the new vocabulary, making sure the students understand the concepts.

g. Have the students finish reading *Muscle Developers* and *Showing Your Strength* in *Student Workouts* and independently complete Exercise 6.1, *How To Reach A Goal*. Review the answers that are given on the next page.

h. Define *opportunity cost* as the next-best alternative that is given up when a choice is made.

i. Explain that when people choose to save for the future, they give up the chance to spend in the present. The alternative they give up is their opportunity cost.

j. Review the problems in Exercise 6.1, asking the students to identify the opportunity cost in each problem. *(When José, Lauren, and Darnell decided to save for the future, they gave up the chance to spend in the present.)*

2. Rolling for a Goal.

a. Divide the class into groups of four. Before starting the exercise, make sufficient sets of Activity Sheet 6.1 *Game Cards for Rolling for a Goal* so each group has a set. Give a set of game cards and two dice to each group.

b. Have the students turn to Exercise 6.2, *Rolling For A Goal*. Instruct the students to follow the game directions, being sure to identify goals as short-, medium-, or long-term on their score sheet.

c. After the game is finished, engage the students in a discussion of the differences among short-, medium-, and long-term saving goals. *(The students should recognize that goals can be short-, medium-, or long-term depending upon the amount of money to be saved and the amount that can be saved during a specific period, i.e., week, month, year, etc.)*

d. Ask the students if leaving a saving goal to chance (the roll of a die) is a good idea. *(The students should recognize that many of the goals were not met when they did not save enough each month or long enough—factors that were determined by the roll of the dice.)*

ANSWERS (to Exercise 6.1, How to Reach a Goal)

- *It will take Jose a little over three years to save enough for the bracelet. This is a long-term goal. Explanation: Jose earns $36 a week; he saves $15 for college and spends $8; $15 + $8 = $23. That leaves $13 every week to save for the bracelet. ($36 – $23 = $13). The bracelet costs $2100. $2100 ÷ $13 = 161.5 weeks to save. 161.5 divided by 52 weeks in a year = 3.1 years. If Jose saves his money in an interest-bearing bank account, he will meet his goal earlier.*
- *It will take Lauren 7.95 weeks to save for the saxophone. This is a short-term goal. Explanation: Lauren saves $5.00 of her allowance money for college. That leaves $22 every week ($17 from baby sitting and $5 from allowance) for the saxophone. The saxophone costs $175. $175 ÷ $22 =7.95 weeks, not quite 2 months.*
- *Darnell will not be able to save enough money for his short-term goal. He earns $75 per week, saves $20, gives $5 to charity, and spends $8. That means he has $42 per week for the golf lessons ($75 – $20 – $5 – $8 = $42). In six weeks he'll have only $252 ($42 × 6). He needs $48 more for the golf lessons. Answers will vary as to how Darnell could change his saving or spending plan in order to meet his goal. Some of the discussion should focus on the importance of giving and sharing as part of a total savings/spending plan.*

COOL DOWN

- Distribute three 4" × 6" index cards to each student.
- Have the students make up three math problems (similar to those in Exercise 6.1) about short-, medium-, and long-term goals.
- The students should write one problem on each card, with answers on the back.
- When all the problems are written, put the cards in a box so the students can challenge each other.

Assessment

Distribute Assessment 6.1 *Short-, Medium-, and Long-Term Goals (Shaping Up Your Financial Future Student Workouts)* to the students at the completion of the lesson. The answer key is at the end of this lesson.

Other Training Equipment

An annotated bibliography and Internet resources can be found on our web site, **www.ncee.net**, and in *The Parents' Guide to Shaping Up Your Financial Future.*

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Visual 6.1

Short-, Medium-, and Long-Term Goals and Opportunity Cost

Short-term savings goals can be achieved in fewer than two months.

Medium-term savings goals may take from 2 months to 3 years to achieve.

Long-term savings goals require 3 years or more to achieve.

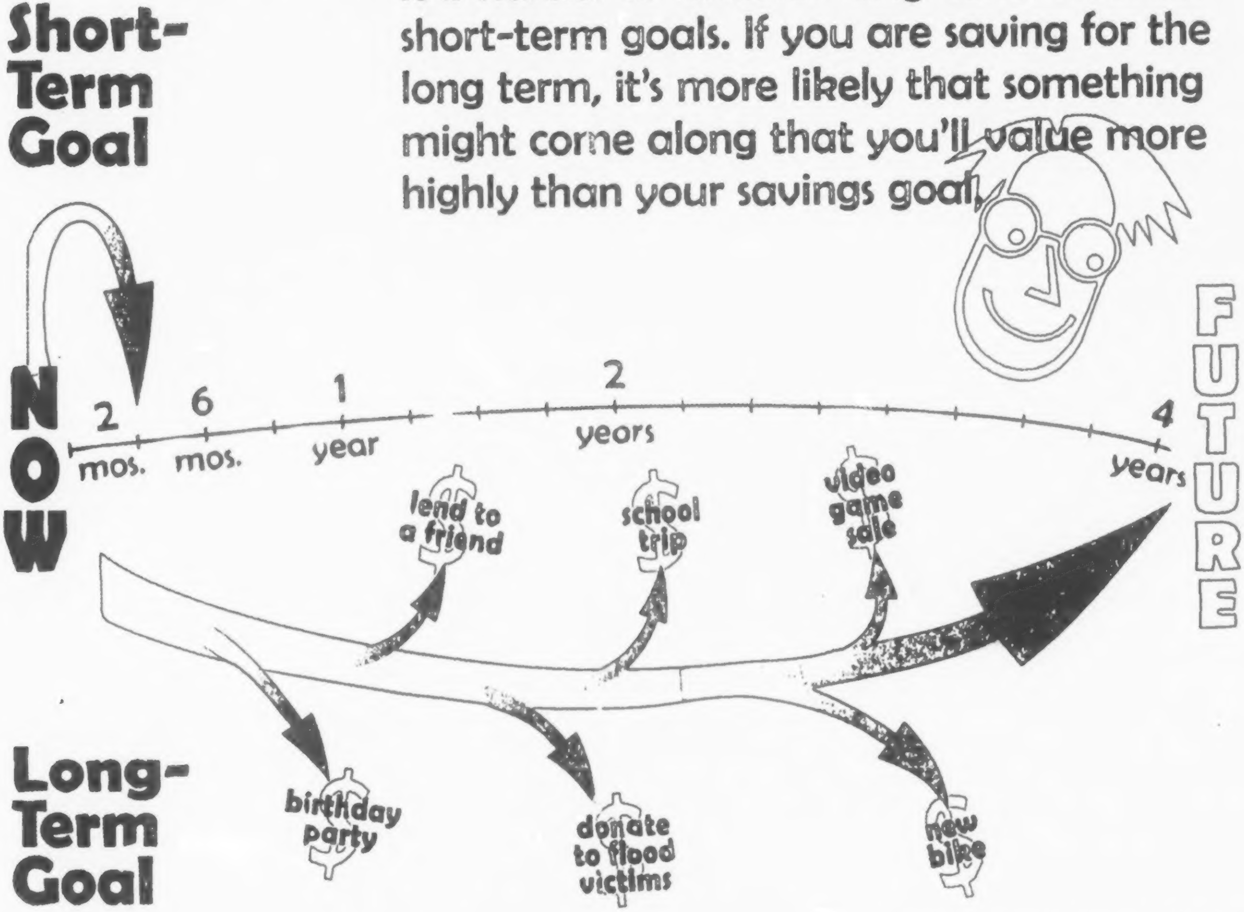
Saving for the future means giving up the opportunity to spend in the present.

The next-best alternative that is given up when saving for a goal is called the opportunity cost.

Visual 6.2

Why It's Harder to Save for Long-Term Goals Than for Short-Term Goals

It is harder to save for long-term than for short-term goals. If you are saving for the long term, it's more likely that something might come along that you'll value more highly than your savings goal.


Short-Term Goal
NOW
2 mos.
6 mos.
1 year
2 years
4 years
FUTURE
lend to a friend
school trip
video game sale
birthday party
donate to flood victims
new bike
Long-Term Goal

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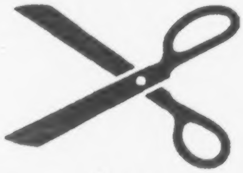
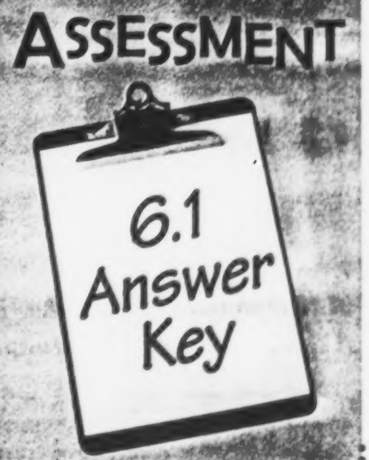
ACTIVITY 6.1

Game Cards for Rolling For a Goal

These are the saving goals for Exercise 6.2, **Rolling for a Goal.** Photocopy this page to make one set for each group of four in your class. Cut apart, shuffle and place face down in a pile in front of the players in each group.

Mountain bike $300	**New computer system $1500**	**New stereo set-up $1600**	**One casual clothing outfit $120**
Inline skates $200	**Collection of CDs $700**	**New furniture for your room $2500**	**Drum set $2000**
Spending money for class trip $150	**Snowboard and boots $500**	**Tennis lessons from a Pro $1000**	**Airfare to visit grandparents $400**
Family trip to Disney World $2400	**Annual family membership in health club $1600**	**Big screen TV for your bedroom $1900**	**Saddle and tack for horse $1700**
Clothing shopping spree $600	**Cell phone and annual calling costs $600**	**Two tickets to a professional basketball game $120**	**Aquarium and fish $200**
	Leather jacket $700	**Collection of CDs and DVDs $1200**	





Short-, Medium-, and Long-Term Goals

Use Assessment 6.1 to determine whether the students have mastered the concepts in this lesson. Answers are provided in the chart below:

Person	Amount to be saved	Amount saved each month	How many months?	How many years?	Short-, medium- or long-term?
Abby	$780.00	$20.00	39.00	3.25	L
Ben	$25.00	$15.00	1.67	0.14	S
Cherise	$700.00	$35.00	20.00	1.67	M
Danuka	$800.00	$70.00	11.43	0.95	M
Emilio	$90.00	$50.00	1.80	0.15	S
Festis	$2900.00	$75.00	38.67	3.22	L

(It will take Cherise 20 months to reach her savings goal of $700.

The opportunity cost of saving for the future is the chance to spend money in the present. Accept any reasonable answer for each month's opportunity cost. Examples: January opportunity cost = noisemakers and party hats for New Year's Party; February opportunity cost = red sweater for Valentine's Day; June opportunity cost = beverages and snacks for end-of-the-school-year picnic; July opportunity cost = flags, hot dogs, and apple pie for July Fourth celebration; September opportunity cost = pens, rulers and notebooks for back-to-school; October opportunity cost = pumpkins and costume for Halloween party; December opportunity cost = woolen hat and gloves for ski trip.)

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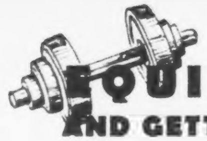
TOMORROW'S MONEY: GETTING TO THE END OF THE RAINBOW (SAVING)

THEME 3

LESSON 7

Types of Savings Plans

Fitness Focus



EQUIPMENT AND GETTING READY!

- ✔ Introductory reading for Lesson 7 *(Shaping Up Your Financial Future Student Workouts)*
- ✔ Exercise 7.1, *Types of Guaranteed Savings Instruments (Shaping Up Your Financial Future Student Workouts)*
- ✔ Exercise 7.2, *Savings Plans in My Community (Shaping Up Your Financial Future Student Workouts)*
- ✔ Assessment 7.1, *Types of Savings Plans (Shaping Up Your Financial Future Student Workouts)*

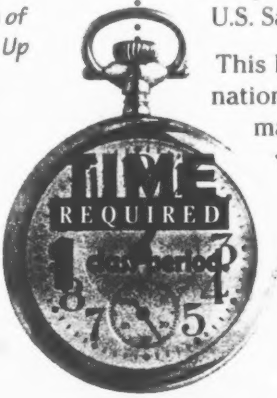
LESSON DESCRIPTION AND BACKGROUND

In this lesson, the students learn about the various types of government insured savings instruments, and the advantages and disadvantages of each.

ECONOMIC AND PERSONAL FINANCE CONCEPTS

Portfolio, savings instrument, savings account, certificate of deposit, money market deposit account, U.S. Savings Bond

This lesson is correlated with national standards for mathematics and economics as well as the national guidelines for personal financial management as shown in Tables 1 through 3 in the front of the book.



Student Objectives

At the end of this lesson, the student will be able to:

- ✔ Define savings instruments.
- ✔ Name the advantages and disadvantages of various savings instruments.
- ✔ Select a savings instrument which best meets one's needs at a particular time.
- ✔ Explain why it is important to shop around for savings instruments.

PARENT CONNECTION

There is no specific family activity worksheet for this lesson but there are activities in *The Parents' Guide* that parents may want to use with this lesson. They can be found in the "Raising the Bar" section for Theme 3.

The Parents' Guide is a tool for reinforcing and extending the instruction provided in the classroom. It includes:

1. Content background in the form of frequently asked questions.
2. Interesting activities that parents can do with their son or daughter.
3. An annotated listing of books and Internet resources related to each theme.

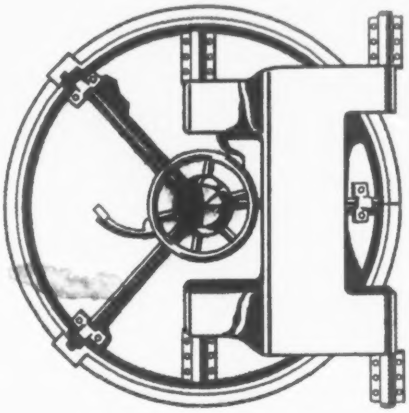
Workout

WARM-UP

1. Introduce the lesson by saying that a savings instrument is a tool people have for saving their money for future purchases. Often, people save to make small and large purchases in the future, for example, an appliance, a stereo, a house, car, or college education for the kids. However, people also save for emergencies or to have a source of income during retirement.

2. Introduce the concept of *risk*. Risk refers to the possibility of loss. Insurance guarantees the safety of your money in different savings instruments in most banks. You cannot lose your deposit, even if the bank goes out of business. The Federal Deposit Insurance Corporation (FDIC) insures your deposits up to $100,000 in a bank that displays their logo. The National Credit Union Association (NCUA) does the same for credit unions.

3. Explain that there are nearly as many ways to save as there are reasons to save. All of the various types of savings instruments can make choosing the best method very confusing because there is no one best method. Individuals have different incomes, different saving goals, and a different time line to meet their goals. Individuals should familiarize themselves with the various plans and choose those that will best meet their needs.



4. Define *portfolio* as a person's financial security "package" or collection. Point out that this package or portfolio should include a variety of savings and investment instruments. In other words, it should be *diversified*.

5. Explain that in later lessons, the students will learn about many other methods to build financial security for the future. In addition to traditional saving instruments, people can place money in investment instruments such as stocks, corporate bonds, or mutual funds. Each saving and investment instrument has advantages and disadvantages. In this lesson, the students learn about traditional savings instruments.

EXERCISE

1. Ask the students to name all the saving or investment methods they've heard of and write the list on the board. Circle those that are commonly offered by banks, savings and loan associations, and credit unions. These would include the savings account, the certificate of deposit, the money market deposit account, and the U.S. Savings Bond. These are the tools people can use to save money; in other words, these are *savings instruments.*

2. Have the students read the *Warm-Up, Fitness Vocabulary, Muscle Developers, Showing Your Strength,* and Exercise 7.1, *Types of Guaranteed Saving Instruments* in *Student Workouts*. Discuss the definitions as well as the advantages and disadvantages of each type of saving method as follows. After discussing the various types, have the students answer the six questions that appear at the end of the exercise. *(Answers: 1.) Statement savings account; 2.) CD with duration of less than three years; money market deposit account, or statement savings account; 3.) money market deposit account or statement savings account; 4.) Money market deposit account or statement savings account; 5.) CD; 6.) U.S. Savings Bonds.)*

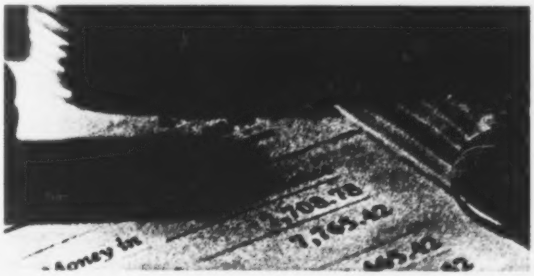
3. Review the point that every saving decision has an opportunity cost. *Opportunity cost* is the second best alternative that is given up when a choice must be made. The person who decides to save gives up the item that he or she could have purchased with that money now.

4. Instruct the students to think about the types of saving methods they have been learning about and answer the following questions.

a. If a person saves $1,000, what is the opportunity cost? *(It is what the saver could have bought currently for $1,000.)*

b. If a person saves $1,000 in a Series EE Savings Bond rather than a statement savings account, what is the opportunity cost? *(It is access to the money for a period of time without penalty [loss of interest.])*

c. If a person decides to save $1,000 in a twelve-month CD rather than in a statement savings account, what is the opportunity cost? *(It is the access to the money without penalty during the 12 months.)*



d. If that person decides to save $1,000 in a regular savings account rather than in a CD, what is the opportunity cost? *(It is the higher interest rate he or she would have had on the savings in a CD.)*

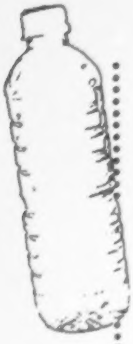
5. Local Savings Plans

a. Indicate that saving plans can vary quite a bit from one financial institution to another. Assign the students to work in groups to visit local banks, savings and loans or credit unions to obtain information about savings plans at each institution.

b. Have the students use Exercise 7.2 to record their findings.

c. Ask each group to present their findings to the class, and consolidate those findings on an overhead transparency.

d. Discuss the similarities and differences the students find among banks and savings and loans and credit unions. Which institution had the best rates of interest for savers? Were penalties the same in all institutions?



COOL DOWN

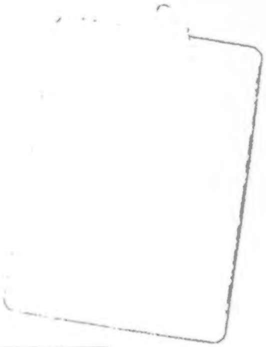
Review the concepts taught in this lesson by asking the following questions.

1. **What are some of the advantages of a money market deposit account?** *(The saver usually can write checks on the account; the account is insured up to $100,000; the interest rate increases as the market interest rates increase.)*
2. **What are some of the disadvantages of a money market deposit account?** *(The saver must maintain a substantial minimum balance. The interest rate may be lower than in other options.)*
3. **What are some of the advantages of a statement savings account?** *(The saver can withdraw the money as needed; the interest rate increases as the market rates increase; the saver can maintain small balances.)*
4. **What are some of the disadvantages of a statement savings account?** *(Statement savings accounts usually pay a lower interest rate than other options. Rates will decrease as the market interest rates decrease.)*
5. **What are some of the advantages of a certificate of deposit?** *(CDs pay a higher interest rate than regular savings accounts; the interest rate is "locked in" so if market interest rates go down, the saver continues to get the higher rate until the CD expires.)*
6. **What are the disadvantages of a certificate of deposit?** *(The saver cannot withdraw money from a CD without significant penalty until the CD has expired; the interest rate is locked in so that if the market interest rate goes up, the CD holder is stuck with the lower interest rate.)*
7. **What are the advantages of U.S. Savings Bonds?** *(Small amounts of money can be saved with U.S. Savings Bonds; the U.S. government guarantees them; they usually pay a higher rate of interest than regular savings accounts; possible tax advantages.)*
8. **What is the disadvantage of U.S. Savings Bonds?** *(There is a penalty [loss of some interest] if they are cashed before maturity.)*

Assessment

Have the students complete Assessment 7.1.

Answers: *1. A; 2. D; 3. A or C; 4. B; 5. A or C.*



Other Training Equipment

An annotated bibliography and listing of additional Internet resources are available on our web site, **www.ncee.net**, and in *The Parents' Guide* for *Shaping Up Your Financial Future.*

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TOMORROW'S MONEY: GETTING TO THE END OF THE RAINBOW (SAVING)

THEME 3

LESSON 8

Who Pays and Who Receives?

Fitness Focus

EQUIPMENT AND GETTING READY!

Make overhead transparencies of the visuals listed here.

- ✔ Visual 8.1, ***Interesting Information About Interest***
- ✔ Visuals 8.2A, ***Simple Interest*** and 8.2B ***Compound Interest***
- ✔ Visuals 8.3A and 8.3B, ***Answers***
- ✔ Visual 8.4, ***Factors That Affect How Money Grows***

All readings, exercises, and the assessment are in *Shaping Up Your Financial Future Student Workouts*

- ✔ Introductory reading for Lesson 8
- ✔ Exercise 8.1A, ***Simple Interest***
- ✔ Exercise 8.1B, ***Compound Interest***
- ✔ Exercise 8.2, ***Simple Interest: When and Why Would People Choose It?***
- ✔ Exercise 8.3, ***Racing Toward a Goal***
- ✔ Exercise 8.4, ***Checking Out the Rule of 72: Does It Work?***
- ✔ Assessment 8.1 ***Factors that Affect How Money Grows***
- ✔ Family Activity 6, ***The Power of Compounding (The Parents' Guide for Shaping Up Your Financial Future)***
- ✔ Bag of large dried kidney beans (or other beans.)
- ✔ Two tall, narrow glass jars (labeled ***Simple*** and ***Compound***).
- ✔ One small narrow glass jar (labeled ***Interest Paid Out To Depositor***).
- ✔ Two overhead projectors
- ✔ Calculators (one for each student)

LESSON DESCRIPTION

In this lesson, students learn that banks are businesses and, as such, seek to make a profit. One way banks do this is by charging borrowers a higher rate of interest than the interest that is paid to savers. Students discover that three factors affect how money grows: amount deposited, interest rate, and time. Students calculate interest—both simple and compound—and they formulate a generalization about the difference between simple and compound interest. Finally, they engage in a family activity using the Rule of 72 to estimate how long it takes for money to double.

Student Objectives

At the end of this lesson, the student will be able to:

- ✔ Explain how banks make a profit.
- ✔ Calculate simple and compound interest.
- ✔ Explain the opportunity cost of not allowing interest to compound; explain the opportunity cost of not taking interest as it is earned.
- ✔ Analyze the difference between simple and compound interest.
- ✔ Explain the factors that affect how money grows.
- ✔ Apply the Rule of 72.

This lesson is correlated with national standards for mathematics and economics as well as the national guidelines for personal financial management as shown in Tables 1 through 3 in the front of the book.

ECONOMIC AND PERSONAL FINANCE CONCEPTS

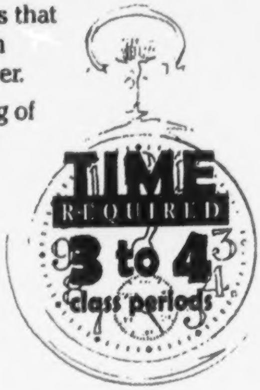
Interest, interest rate, simple interest, compound interest, compounding, opportunity cost, rule of 72

PARENT CONNECTION

Family Activity 6 in *The Parents' Guide* shows the principle supporting compound interest. This is an important principle for both students and their parents to understand.

The Parents' Guide is a tool for reinforcing and extending the instruction provided in the classroom. It includes:

1. Content background in the form of frequently asked questions.
2. Interesting activities that parents can do with their son or daughter.
3. An annotated listing of books and Internet resources related to each theme.



Workout

WARM-UP

1. Introduce the concept of *interest* by asking if any students have savings accounts. If they do, ask why they keep their money in a savings account instead of in a dresser drawer or a shoebox in their closets. *(Some students will undoubtedly know that banks provide security and pay interest on savings; discuss these concepts to make sure students understand them.)*
2. Display Visual 8.1 *Interesting Information About Interest* and discuss the definitions. Make sure students understand the difference between simple and compound interest.
3. Explain that when people leave their interest in the bank, it usually compounds, and savings grow rapidly.
4. Explain that sometimes people need their interest to pay for goods and services. They may not be able to leave all of it in the bank to compound; consequently their savings grow more slowly.

EXERCISE

1. Simple Interest and Compound Interest.

- **a.** Explain that students will participate in a simulation that demonstrates the difference between simple and compound interest.
- **b.** Divide the class into two groups: *Simple Interest Group* and *Compound Interest Group*. Have students turn to Exercise 8.1A and B in *Student Workouts*. Students in the *Simple Interest Group* use Exercise 8.1A, *Simple Interest*; the *Compound Interest Group* uses Exercise 8.1B, *Compound Interest*.
- **c.** Give the one narrow, tall jar labeled *Simple Interest* and the smaller jar labeled *Interest Paid Out to Depositor* to the *Simple Interest Group*. Give the tall, narrow jar labeled *Compound Interest* to the *Compound Interest Group*.
- **d.** Display transparencies of Visual 8.2A and 8.2B, *Simple and Compound Interest*, side-by-side on the two overhead projectors.
- **e.** Choose two students, one from each group, to act as bankers. Give each banker a bag of beans. Have each banker count 10 beans from the 'bank bag' into his or her group's jar labeled *Simple Interest* or *Compound Interest*. Have the rest of the students note the deposit in Column C of their respective charts; point this out on the visuals.
- **f.** Tell the students that the interest rate is 20 percent interest, which is a high rate of interest, but it will make the calcula-

tions easier, and not affect the concept to be learned.

g. Instruct both bankers to take two beans from their respective bags to represent the 20% interest. The *Simple Interest* banker should put the two beans in the jar marked "Interest Paid Out To Depositor." The *Compound Interest* banker puts two beans in the same jar with the original deposit. *(20 percent of 10=.2× 10=2)*

h. Explain that when interest is allowed to *compound*, it is added to the existing balance and also earns interest. When interest is paid out to the depositor, it does not compound.

i. Have both groups look at their ending balance (column G). Because the *Compound Interest Group* kept its interest on deposit, it has 12 beans while the *Simple Interest Group* has only 10.

j. Continue to work through the deposit cycle again. Have student complete 6 cycles. (Deposit 10 beans, calculate interest, add 'interest beans' to correct jar.) Have each group calculate its new balance (Column D), interest earned (Column F) and ending balance (Column G). You can complete the visuals as the students calculate each cycle.

k. Have the students count the beans in the compound interest jar (there should be 119) and in the two jars for the simple interest group. (They should have 60 beans in the deposit jar, and 42 beans in the interest paid out, for a total of 102.) Double check their answers by having the students calculate the total amount deposited in column C, and the total interest earned in column F.

l. Display Visuals 8.3A and B, *Answer Sheets* (or use the transparency you have with the written answers.) Note that the *Simple Interest Group* and the *Compound Interest Group* each deposited the same amount, 60 beans. However, the *Compound Interest Group* earned a total of 59 beans in interest, but the *Simple Interest Group* earned only 42 beans.

m. Ask the students what the opportunity cost was when *Simple Interest Group* chose to receive its interest instead of re-depositing it. *(The opportunity cost was the extra interest they would have earned.)*

n. Ask what the opportunity cost of the Compound Interest Group was. *(By saving all their interest for the future, their opportunity cost was not being able to spend the interest in the present.)* Remind students that, at times, savers cannot take advantage of compounding because they must use their accumulated interest to pay for the goods and services they want.

2. Have the students read the *Warm-Up* and *Fitness Vocabulary* for Lesson 8 from *Student Workouts.* Discuss the readings.

- ▲ Ask the students why banks charge a higher interest rate to borrowers than they pay to savers. *(Answer: Banks are businesses. Banks must charge a higher interest rate to borrowers than the interest rate they pay to savers to cover expenses and earn profit.)*
- ▲ Make sure students understand the new concepts and glossary terms.

3. Have students read *Muscle Developers* and *Showing Your Strength* in *Student Workouts.* Discuss any concepts or ideas that the students have difficulty in understanding.

4. Emphasize the factors that affect the amount of interest gained from a saving plan.

a. Display Visual 8.4, *Factors that Affect How Money Grows*, making sure students understand how the amount of savings, time, and interest rate impact the interest earned.

b. Have students independently or in pairs, complete Exercise 8.2, *Simple Interest: When and Why Would People Choose It?* Answers are given on the next page:

Exercise 8.2 Answers

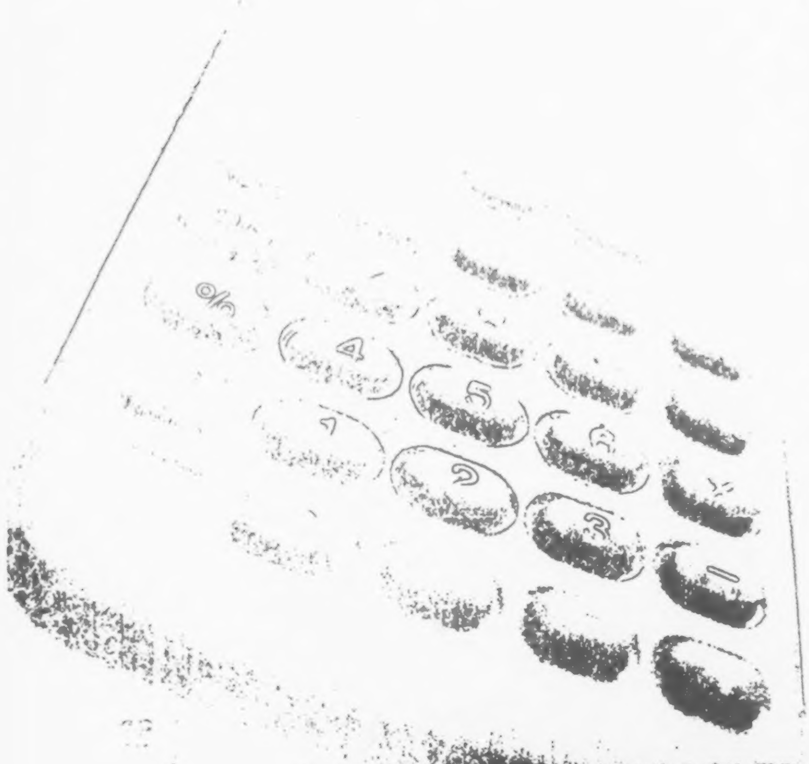
Principal	×	Interest Rate	×	Time	=	Simple Interest	÷ 4 =	Quarterly Payment
$60,000	×	6%	×	1 Year	=	$3,600	÷ 4 =	$900
$20,000	×	5%	×	1 Year	=	$1,000	÷ 4 =	$250
$10,000	×	10%	×	1 Year	=	$1,000	÷ 4 =	$250
$80,000	×	7%	×	1 Year	=	$5,600	÷ 4 =	$1,400
$75,000	×	9%	×	1 Year	=	$6,750	÷ 4 =	$1,688
$125,000	×	8%	×	1 Year =		$10,000	÷ 4 =	$2,500
$200,000	×	7%	×	1 Year	=	$14,000	÷ 4 =	$3,500
$40,000	×	5%	×	1 Year	=	$2,000	÷ 4 =	$500
$100,000	×	4%	×	1 Year	=	$4,000	÷ 4 =	$1,000
$100,000	×	10%	×	1 Year	=	$10,000	÷ 4 =	$2,500

5. Racing Toward a Goal: The effect of time, interest rate, and amount saved on interest earned.

a. Explain that this exercise will demonstrate how money grows at different rates depending upon the amount of deposit, the interest rate, and the length of time money is left on deposit.

b. Have the students read the directions for Exercise 8.3, *Racing Toward a Goal*, in *Student Workouts*. Assign each student one of the eight situations. (Or make up teams of 8 students and have each student select a different situation.) Have each student complete the *Calculation Sheet* with *Racing Toward a Goal* to determine when his or her driver will meet the goal. Students could use calculators or a spreadsheet program to do the calculations.

c. When students have completed their calculations, they should compare their findings with their classmates' (or team's) findings to determine the correct order in which the drivers reached their goals. *(Answers are given on the next pages.)*



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The correct order of racers is:

F H E G B C D A

(Completed calculation sheets for each racer are found below and on the next pages.)

Answer grid for $2,000 at 6% interest. Racer A reaches the goal of $40,000 in 13 years.

A	B	C	D	E	F	G
Year	Beginning Balance (from G)	Annual Deposit	New Balance (B+C)	Interest Rate	Interest Earned (D×E)	Total (D+F)
1	0	$2,000	$2,000	0.06	120.00	$2,120
2	$2,120.00	$2,000	$4,120.00	0.06	247.20	$4,367.20
3	$4,367.20	$2,000	$6,367.20	0.06	382.03	$6,749.23
4	$6,749.23	$2,000	$8,749.23	0.06	524.95	$9,274.19
5	$9,274.19	$2,000	$11,274.19	0.06	676.45	$11,950.64
6	$11,950.64	$2,000	$13,950.64	0.06	837.04	$14,787.68
7	$14,787.68	$2,000	$16,787.68	0.06	1007.26	$17,794.94
8	$17,794.94	$2,000	$19,794.94	0.06	1187.70	$20,982.64
9	$20,982.64	$2,000	$22,982.64	0.06	1378.96	$24,361.60
10	$24,361.60	$2,000	$26,361.60	0.06	1581.70	$27,943.30
11	$27,943.30	$2,000	$29,943.30	0.06	1796.60	$31,739.90
12	$31,739.90	$2,000	$33,739.90	0.06	2024.39	$35,764.29
13	$35,764.29	$2,000	$37,764.29	0.06	2265.86	$40,030.15

Answer grid for $2,000 at 10% interest. Racer B reaches the goal of $29,000 in 9 years.

A Year	B Beginning Balance (from G)	C Annual Deposit	D New Balance (B+C)	E Interest Rate	F Interest Earned (D×E)	G Total (D+F)
1	0	$2,000	$2,000.00	10%	200.00	$2,200.00
2	$2,200.00	$2,000	$4,200.00	10%	420.00	$4,620.00
3	$4,620.00	$2,000	$6,620.00	10%	662.00	$7,282.00
4	$7,282.00	$2,000	$9,282.00	10%	928.20	$10,210.20
5	$10,210.20	$2,000	$12,210.20	10%	1221.02	$13,431.22
6	$13,431.22	$2,000	$15,431.22	10%	1543.12	$16,974.34
7	$16,974.34	$2,000	$18,974.34	10%	1897.43	$20,871.77
8	$20,871.77	$2,000	$22,871.77	10%	2287.18	$25,158.95
9	$25,158.95	$2,000	$27,158.95	10%	2715.90	$29,874.85

Answer grid for $3,000 at 6% interest. Racer C reaches the goal of $41,000 in 10 years.

A Year	B Beginning Balance (from G)	C Annual Deposit	D New Balance (B+C)	E Interest Rate	F Interest Earned (D×E)	G Total (D+F)
1	0	$3,000	$3,000.00	0.06	$180.00	$3,180.00
2	$3,180.00	$3,000	$6,180.00	0.06	$370.80	$6,550.80
3	$6,550.80	$3,000	$9,550.80	0.06	$573.05	$10,123.85
4	$10,123.85	$3,000	$13,123.85	0.06	$787.43	$13,911.28
5	$13,911.28	$3,000	$16,911.28	0.06	$1,014.68	$17,925.96
6	$17,925.96	$3,000	$20,925.96	0.06	$1,255.56	$22,181.52
7	$22,181.52	$3,000	$25,181.52	0.06	$1,510.89	$26,692.41
8	$26,692.41	$3,000	$29,692.41	0.06	$1,781.54	$31,473.95
9	$31,473.95	$3,000	$34,473.95	0.06	$2,068.44	$36,542.39
10	$36,542.39	$3,000	$39,542.39	0.06	$2,372.54	$41,914.93

Answer grid for $3,000 at 10% interest. **Racer D** reaches the goal of $61,000 in 11 years.

A	B	C	D	E	F	G
Year	Beginning Balance (from G)	Annual Deposit	New Balance (B+C)	Interest Rate	Interest Earned (D×E)	Total (D+F)
1	0	$3,000	$3,000.00	10%	300.00	$3,300.00
2	$3,300.00	$3,000	$6,300.00	10%	630.00	$6,930.00
3	$6,930.00	$3,000	$9,930.00	10%	993.00	$10,923.00
4	$10,923.00	$3,000	$13,923.00	10%	1,392.30	$15,315.30
5	$15,315.30	$3,000	$18,315.30	10%	1,831.53	$20,146.83
6	$20,146.83	$3,000	$23,146.83	10%	2,314.68	$25,461.51
7	$25,461.51	$3,000	$28,461.51	10%	2,846.15	$31,307.66
8	$31,307.66	$3,000	$34,307.66	10%	3,430.77	$37,738.43
9	$37,738.43	$3,000	$40,738.43	10%	4,073.84	$44,812.27
10	$44,812.27	$3,000	$47,812.27	10%	4,781.23	$52,593.50
11	$52,593.50	$3,000	$55,593.50	10%	5,559.35	$61,152.85

Answer grid for $4,000 at 6% interest. **Racer E** reaches the goal of $35,000 in 7 years.

A	B	C	D	E	F	G
Year	Beginning Balance (from G)	Annual Deposit	New Balance (B+C)	Interest Rate	Interest Earned (D×E)	Total (D+F)
1	0	$4,000	$4,000.00	0.06	$240.00	$4,240.00
2	$4,240.00	$4,000	$8,240.00	0.06	$494.40	$8,734.40
3	$8,734.40	$4,000	$12,734.40	0.06	$764.06	$13,498.46
4	$13,498.46	$4,000	$17,498.46	0.06	$1,049.91	$18,548.37
5	$18,548.37	$4,000	$22,548.37	0.06	$1,352.90	$23,901.27
6	$23,901.27	$4,000	$27,901.27	0.06	$1,674.08	$29,575.35
7	$29,575.35	$4,000	$33,575.35	0.06	$2,014.52	$35,589.87

Answer grid for $4,000 at 10% interest. Racer F reaches the goal of $26,000 in 5 years.

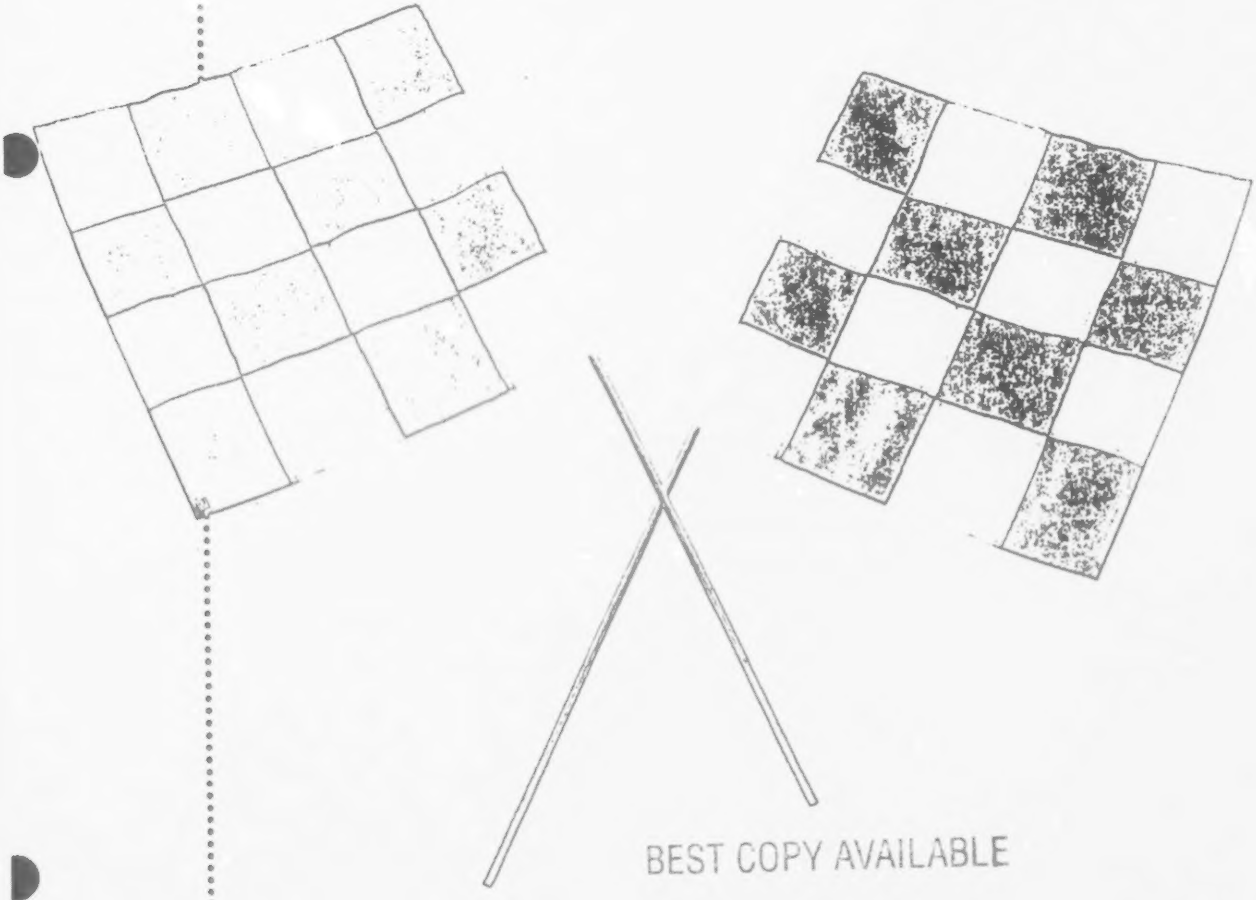
A Year	B Beginning Balance (from G)	C Annual Deposit	D New Balance (B+C)	E Interest Rate	F Interest Earned (D×E)	G Total (D+F)
1	0	$4,000	$4,000.00	10%	$400.00	$4,400.00
2	$4,400.00	$4,000	$8,400.00	10%	$840.00	$9,240.00
3	$9,240.00	$4,000	$13,240.00	10%	$1,324.00	$14,564.00
4	$14,564.00	$4,000	$18,564.00	10%	$1,856.40	$20,420.40
5	$20,420.40	$4,000	$24,420.40	10%	$2,442.04	$26,862.44

Answer grid for $5,000 at 6% interest. Racer G reaches the goal of $52,000 in 8 years.

A Year	B Beginning Balance (from G)	C Annual Deposit	D New Balance (B+C)	E Interest Rate	F Interest Earned (D×E)	G Total (D+F)
1	0	$5,000	$5,000.00	0.06	$300.00	$5,300.00
2	$5,300.00	$5,000	$10,300.00	0.06	$618.00	$10,918.00
3	$10,918.00	$5,000	$15,918.00	0.06	$955.08	$16,873.08
4	$16,873.08	$5,000	$21,873.08	0.06	$1,312.38	$23,185.46
5	$23,185.46	$5,000	$28,185.46	0.06	$1,691.13	$29,876.59
6	$29,876.59	$5,000	$34,876.59	0.06	$2,092.60	$36,969.19
7	$36,969.19	$5,000	$41,969.19	0.06	$2,518.15	$44,487.34
8	$44,487.34	$5,000	$49,487.34	0.06	$2,969.24	$52,456.58

Answer grid for $5,000 at 10% interest. Racer H reaches the goal of $42,000 in 6 years.

A Year	B Beginning Balance (from G)	C Annual Deposit	D New Balance (B + C)	E Interest Rate	F Interest Earned (D × E)	G Total (D + F)
1	0	$5,000	$5,000.00	10%	$500.00	$5,500.00
2	$5,500.00	$5,000	$10,500.00	10%	$1,050.00	$11,550.00
3	$11,550.00	$5,000	$16,550.00	10%	$1,655.00	$18,205.00
4	$18,205.00	$5,000	$23,205.00	10%	$2,320.50	$25,525.50
5	$25,525.50	$5,000	$30,525.50	10%	$3,052.55	$33,578.05
6	$33,578.05	$5,000	$38,578.05	10%	$3,857.81	$42,435.86



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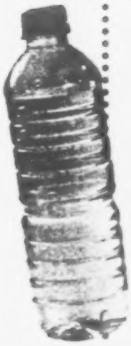
6. Explain that there is an easy way to estimate the extent to which interest compounds when it is left to accumulate. It is called the *Rule of 72*. The *Rule of 72* estimates how long it takes for money to double. Simply divide the number 72 by the interest rate, and the answer is the **approximate** number of years required to double your money. For example, at 10% interest, money doubles in about 7.2 years (72 ÷ 10 = 7.2); at 7% interest, money doubles in about 10.3 years (72 ÷ 7 = 10.3).
   - **a.** In Exercise 8.4, *Checking Out the Rule of 72: Does It Work?* students will be trying to find out if the Rule of 72 is accurate in predicting how long it will take for $100,000 to double at different interest rates.
   - **b.** Have the students use an on-line interest calculator such as the one found at **www.1728.com/compint.htm** to check out the Rule of 72.
   - **c.** They should use this procedure:
     1. Solve for YEARS
        - ▲ Input Principal: 100,000
        - ▲ Input Total: 200,000 (i.e. double the principal)
        - ▲ Input Rate (do NOT use a decimal [e.g. 6% = 6])
     2. Click on CALCULATE
        - ▲ The answer will be the number of years it takes for the principal to double.
   - **d. Ask: "Does the Rule of 72 work?"** *(Students should observe that the Rule of 72 is fairly accurate in estimating the length of time for money to double. In each of the examples, money nearly doubles according to the Rule of 72.)*

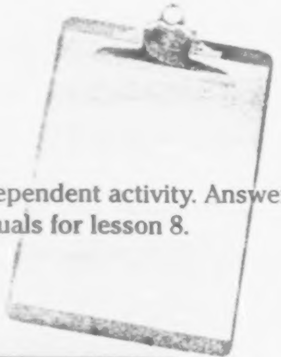


COOL DOWN

Ask the students the following questions:

1. **What is simple interest?** *(Interest earned on the principal and paid out to the depositor.)*
2. **What is compound interest?** *(Interest computed on the sum of the principal and previously earned interest.)*
3. **What determines the amount of interest earned?** *(The interest rate, the amount of the principal, and the length of time on which the interest is calculated.)*
4. **If you left $3,000 in a savings account earning 8% interest, how many years would it take to double in size?** *(Nine years, when estimated by the rule of 72, or 72 ÷ 8 = 9)*

Assessment



Have students complete Assessment 8.1 as a quiz or independent activity. Answers are shown on Answer key for Assessment 8.1, which follows the visuals for lesson 8.

Other Training Equipment

An annotated bibliography and additional Internet resources are available on our web site, **www.ncee.net**, as well as in *The Parents' Guide to Shaping Up Your Financial Future.*

Visual 8.1

Interesting Information about Interest

Interest
The price paid for using someone else's money.

Interest Rate
The price paid for using someone else's money, expressed as a percentage.

Principal
Basic amount deposited, **without** adding interest earned.

Simple Interest
Interest earned on the principal and **paid out** to a depositor.

Compound Interest
Interest computed on the sum of the principal **and** previously earned interest.

Compounding
The practice of leaving interest earned **on deposit**, so that it too earns interest.

Visual 8.2A

Simple Interest

A	B	C	D	E	F	G
Deposit Cycle	**Beginning Balance** (from previous G)	**Deposited Amount**	**New Balance** (B + C)	**Rate of Interest**	**Interest Earned and paid out** (D × E)	**Ending Balance** (D)
1	0	10	10	20%	2	10
2		10		20%		
3		10		20%		
4		10		20%		
5		10		20%		
6		10		20%		
Total						

Visual 8.2B

Compound Interest

A	B	C	D	E	F	G
Deposit Cycle	**Beginning Balance** (from previous G)	**Deposited Amount**	**New Balance** (B + C)	**Rate of Interest**	**Interest Earned and left in acct.** (D × E)	**Ending Balance** (F + D)
1	0	10	10	20%	2	12
2		10		20%		
3		10		20%		
4		10		20%		
5		10		20%		
6		10		20%		
Total						

Round decimals to closest whole number.

Visual 8.3A

Simple Interest (Answers)

A	B	C	D	E	F	G
Deposit Cycle	**Beginning Balance** (from previous G)	**Deposited Amount**	**New Balance** (B+C)	**Rate of Interest**	**Interest Earned and paid out** (D×E)	**Ending Balance** (D)
1	0	10	10	20%	2	10
2	10	10	20	20%	4	20
3	20	10	30	20%	6	30
4	30	10	40	20%	8	40
5	40	10	50	20%	10	50
6	50	10	60	20%	12	60
Total		60			42	

Visual 8.3B

Compound Interest (Answers)

A Deposit Cycle	B Beginning Balance (from previous G)	C Deposited Amount	D New Balance (B + C)	E Rate of Interest	F Interest Earned and left in acct. (D × E)	G Ending Balance (F + D)
1	0	10	10	20%	2	12
2	12	10	22	20%	4	26
3	26	10	36	20%	7	43
4	43	10	53	20%	11	64
5	64	10	74	20%	15	89
6	89	10	99	20%	20	119
Total		60			59	

Decimals have been rounded
to the closest whole number.

Visual 8.4

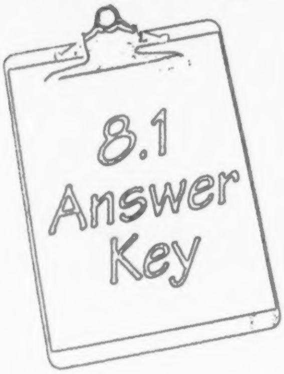
Factors that Affect How Money Grows

Amount of money left on deposit

Interest Rate

Length of time money is left on deposit

ASSESSMENT



Factors that Affect How Money Grows*

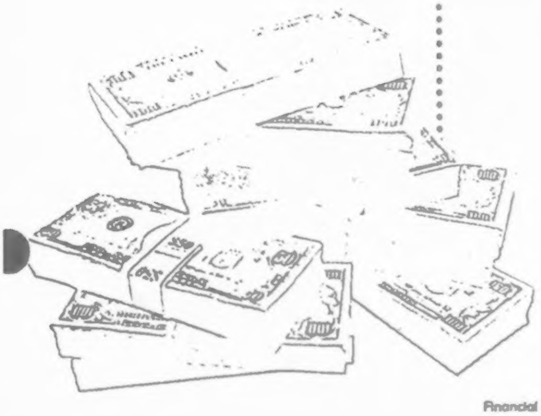
Beginning values:
Amount.................... $5,000
Interest rate.................... 5%
Time.......................... 5 years

Change only the amount:
Amount...................... $10,000
Interest rate.......................... 5%
Time.............................. 5 years

Change only the interest rate:
Amount.............................. $5,000
Interest rate................................ 10%
Time.................................... 5 years

Change only the time:
Amount....................... $5,000
Interest rate........................ 5%
Time .... 10 years

Year	Year Start Balance	Interest Rate	Interest Earned	Year End Balance
1	$5,000.00	5%	$250.00	$5,250.00
2	5,250.00	5%	262.50	5,512.50
3	5,512.50	5%	275.63	5,788.13
4	5,788.13	5%	289.41	6,077.54
5	6,077.54	5%	303.88	6,381.42
1	$10,000.00	5%	500.00	10,500.00
2	10,500.00	5%	525.00	11,025.00
3	11,025.00	5%	551.25	11,576.25
4	11,576.25	5%	578.81	12,155.06
5	12,155.06	5%	607.75	12,762.81
1	$5,000.00	10%	500.00	5,500.00
2	5,500.00	10%	550.00	6,050.00
3	6,050.00	10%	605.00	6,655.00
4	6,655.00	10%	665.50	7,320.50
5	7,320.50	10%	732.05	8,052.55
1	$5,000.00	5%	250.00	5,250.00
2	5,250.00	5%	262.50	5,512.50
3	5,512.50	5%	275.63	5,788.13
4	5,788.13	5%	289.41	6,077.54
5	6,077.54	5%	303.88	6,381.42
6	6,381.42	5%	319.07	6,700.49
7	6,700.49	5%	335.02	7,035.51
8	7,035.51	5%	351.78	7,387.29
9	7,387.29	5%	369.36	7,756.65
10	7,756.65	5%	387.83	8,144.48



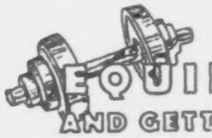
** If rounding of cents is not completed in each year, the answers will vary from the answer key.*

THEME 3

LESSON 9

Stocks and Mutual Funds

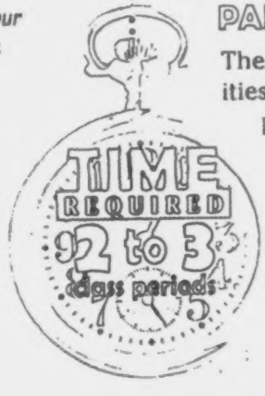
Fitness Focus



EQUIPMENT AND GETTING READY!

Make overhead transparencies of the visuals listed here.

- ✓ Visual 9.1, ***Steps in the Life of a Stock***
- ✓ Visual 9.2, ***The Secondary Markets***
- ✓ Introductory reading for Lesson 9 ***(Shaping Up Your Financial Future Student Workouts)***
- ✓ Exercise 9.1, ***An Interview with Mr. Stock (Shaping Up Your Financial Future Student Workouts)***
- ✓ Exercise 9.2, ***Juanita's Decisions (Shaping Up Your Financial Future Student Workouts)***
- ✓ Six sheets of poster board (one for each group)
- ✓ Art supplies
- ✓ Magazines



LESSON DESCRIPTION AND BACKGROUND

In this lesson, the students examine the nature of stocks including how stocks are issued, differences in their levels of risk, and the differences in possible returns. The students also compare and contrast stocks with various savings plans provided by financial institutions. The nature of mutual funds, which allows diversification and reduction of risk, will also be covered.

This lesson is correlated with national standards for mathematics and economics as well as the national guidelines for personal financial management as shown in Tables 1 through 3 in the front of the book.

ECONOMIC AND PERSONAL FINANCE CONCEPTS

Equity, stocks, mutual funds, risk, diversification

PARENT CONNECTION

There is no specific family activity for this lesson, but there are activities in *The Parents' Guide to Shaping Up Your Financial Future* that parents may want to use with this lesson. These activities can be found in the "Raising the Bar" section of Theme 3.

The Parents' Guide is a tool for reinforcing and extending the instruction provided in the classroom. It includes:

1. Content background in the form of frequently asked questions.

2. Interesting activities that parents can do with their son or daughter.
3. An annotated listing of books and Internet resources related to each theme.

Student Objectives

At the end of this lesson, the student will be able to:

✓ Explain that stocks are ownership in a corporation.

✓ Explain the risk associated with stock ownership.

✓ Compare and contrast an investment in stocks with an investment in savings plans.

✓ Explain two ways in which stocks provide a return to owners.

✓ Differentiate between the primary and secondary markets for stocks.

✓ Define mutual funds and cite different types.

✓ Define diversification.

Workout

WARM-UP

1. Introduce the lesson by asking the students if they've heard of stocks. Ask the students to describe stocks. Ask them whether they can explain the differences between U.S. Savings Bonds and a stock. *(Bonds are debt instruments; stocks are equity.)*

2. Choose two students to role-play the interview with Mr. Stock, Exercise 9.1 in *Student Workouts*. After the role-play, discuss the answers to questions found in the exercise. Answers to questions are:

   a. *Stocks show ownership or equity in a corporation.*

   b. *Firms receive money from a stock when it is initially issued.*

   c. *Stocks are primarily traded at stock exchanges (e. g. New York and American) and through brokerage houses that make a market in specific stocks (NASDAQ).*

   d. *Advantages of owning stocks: owns part of business, has a voice in the business, has the possibility of getting above average return on investment. Disadvantages: may lose investment, may not receive any annual return.*

   e. *Stock owners receive their return in two ways—dividends that they receive and selling their stocks for more than they paid for them.*

   f. *U.S. Savings Bonds, corporate bonds, and other savings instruments are debt. This means that the party purchasing the bonds or putting money in a savings account is loaning money to another party for a period of time. Stockholders are owners of a corporation; they have a voice in the selection of people who run the corporation.*

   g. *With bonds, there is a promise that interest will be paid and that the loan will be repaid. Stockholders are not promised a return on their investment, or that the amount invested will be repaid if they sell the stock.*

   h. *People buy stocks because they want the possibility of earning a greater return on their investment than is possible with other investments.*

3. Have the students read the *Warm-Up* for Lesson 9 in *Student Workouts*. Discuss the ideas presented in the reading with the class.

EXERCISE

1. How Stocks are Exchanged

a. Display Visual 9.1, *Steps in the Life of a Stock*, and explain that a stock is a share of ownership in a business, so stockholders are owners. Stocks are also called *equities*, meaning they are property. Each share owned by the stockholder entitles him or her to vote for the business's top managers or directors. In addition, each share entitles the stockholder to a share of the business's profits.

b. Using Visual 9.1 as a guide, describe how stocks are created and issued. When a business needs money to grow, it can issue stock. The first issue of the stock is called an *Initial Public Offering or IPO*. This big block of stock shares is sold to an investment firm that specializes in initial offerings of stocks. This sale takes place in the *primary market*. The primary market is where stocks are offered for sale the first time. The investment firm then sells smaller blocks to its best customers.

c. Display Visual 9.2, *Secondary Markets*, and explain that the *secondary market* is where stocks are bought and sold after the initial offering. The secondary market primarily consists of stock exchanges and over-the-counter markets. The major stock exchanges in the United States are the New York Stock Exchange and the American Stock Exchange. Stocks bought and sold on these exchanges are only those listed on the exchanges. NASDAQ is the major over-the counter market. In the NASDAQ market, individual brokerage houses *make markets* in specific stocks. Making a market means that the brokerage house is a centralized place where a certain stock can be traded. As a member of NASDAQ, the brokerage house reports the sales to a centralized location so that others will know what the stock is selling for at a particular time.

d. Redisplay Visual 9.1, *Life of a Stock*. Explain that when Success, Inc.'s shares of stock were purchased in the primary market, Success, Inc. got the money. But, Success, Inc. will never get money from the sale of its stock after its primary market sale. It no longer owns the stock. Ownership has been transferred to the purchaser of the stock. The next time those shares of stocks are sold, the money will go to the stockholder selling the stock.

of Investments
Portfolio Income
Income & Growth
High Yield
Short Fixed-Income
21.98%
2.03%
2.22%
2.51%
.97%
1.09%
6.94%
27.08%
33.92%
7.55%
1.13%
18.73%
4.37%
1.75%
1.35%
5.58%

2. The Risks of Owning Stocks Compared to Loaning Money

a. Indicate that savings instruments and U.S. Savings Bonds are forms of debt. In the case of savings instruments, the person putting money into a savings account, a CD, or a money market deposit account are loaning money to the financial institution to loan out to other people. In the case of U.S. Savings Bonds, the person buying the bond is loaning money to the U. S. government. Corporations also issue bonds. They sell bonds, just like the government, which investors buy. Investors receive interest at least two times a year on the debt and there is a certain time when the corpora-

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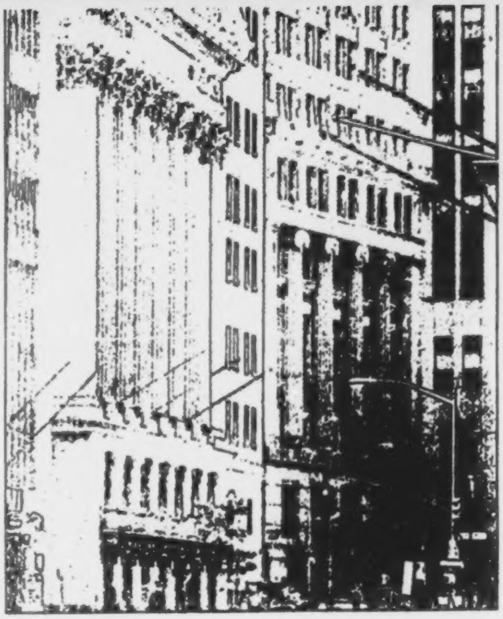


tion must pay back the amount of the loan. After that background, have the students read the case problem in Exercise 9.2 and answer the three questions. The answers are:

1. *Creditors are favored over owners when firms are liquidated.*
2. *The stocks were riskier to Juanita since she did not receive any dividends or a return of her investment.*
3. *All stocks are not riskier than bonds. A stock in a company that is well run and has a good track record as to profitability carries less risk than a bond in a firm that is just getting started or is having difficulty making a profit. When looking at stocks and bonds issued by the same firm, though, stocks are riskier than bonds because of the differences in legal rights of stockholders and bondholders.*

b. Point out an important maxim in the investment world—the more risk of losing your money, the higher the possible return. Or the less risk, the lower the possible return. This has been very true of investments over the long run.

3. Mutual Funds

a. Explain that investors can reduce their risk by purchasing stocks in the form of mutual funds. Demonstrate mutual funds by placing a small box on your desk. Introduce yourself as the fund manager. Open a newspaper to the stock report page. Name a stock and say something like, "Hmm, IBM. I think I'll buy 10,000 shares of this." Cut a small chunk out of the paper and place it in the box. Continue doing this four or five times. Each time, mention a Blue Chip stock such as International Paper Company, Boeing Company, McDonalds, General Motors, Ford Motor Company, or Wal-Mart Stores, Inc.

b. Remind the students that you are the fund manager. This means you pick the stocks and the amount of shares of the stocks that will be included in the fund. As a fund manager, you want your fund to increase in value. By purchasing many different stocks, you reduce the risk that your fund will lose money because even if some stocks in your fund go down in value, it is likely other stocks in your fund will go up in value.

c. Explain that having many different stocks allows investors to reduce their risk. Having many different stocks, as well as other investment and some cash is called *diversification*. If an investor wants diversification, she or he can carefully choose many different stocks to include in his or her holdings. Or, she or he can buy shares in a mutual fund. If a person holds shares in a mutual fund, he or she is holding shares of stock in all of the companies included in the fund.

d. Place another small box on your desk. Go through the same procedure as above, but this time name smaller company stocks, such as Grey Wolf, Inc., Covad Communications Group, Inc., S3, Inc., and CenturyTel, Inc. Ask the students if they have detected any difference in these two mutual funds. (The students have likely not heard of these companies.)

e. Explain that the first fund contained all "*blue chip*" stocks. These are stocks in big companies that have been doing a profitable business for a long time. It is not likely that the price of these stocks will decrease greatly. It is also unlikely that they will have large percentage increases in a short amount of time. This type of "blue-chip" mutual fund is considered to provide sustained but relatively slow growth. It is for people who want to receive a regular income from their investments, don't want to risk losing large amounts of money, and are satisfied with small, sustained gains in value.

f. Explain that the second fund contained smaller companies that look like they will prosper, but how well they will do in the future is uncertain. This is a *growth fund*, and it is riskier. It is for investors who are willing to lose some money but are hoping that these mid-size companies will grow and that the stock will increase greatly in value.

g. Point out that there are many different kinds of funds and that each carries different levels of risk. There are overseas growth funds containing stocks in foreign companies. There are money market funds that contain government-insured bonds. Each mutual fund is designed to meet the investment goals of a particular type of investor.

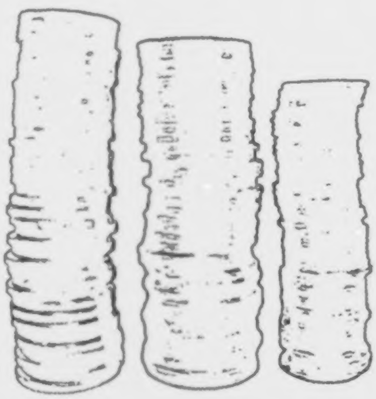
COOL DOWN

1. Have the students read the *Fitness Vocabulary*, *Muscle Developers*, and *Showing Your Strength* in *Student Workouts* as a review. Go over any of the concepts that they do not understand.

2. Remind the students that stocks offer an investor ownership in a company. As an owner, an investor faces the risk of losing part or all of his or her investment if the business fails. For that reason, an investor should purchase stock carefully. If he or she is comfortable with a relatively high level of risk, the investor may want to purchase stock in a small or new firm that shows great potential for growth. However, if an investor would rather have slow and steady growth, with less risk of losing his or her initial investment, stocks in stable, large companies would be preferred.

3. Ask the students what the following statement means, "Don't put all of your eggs in one basket." The students should recognize that if all of the eggs are in one basket and the basket falls, all of the eggs would be worthless. The same is true for investments. It is important that investors reduce their risk by having a number of diverse investment instruments. In part, this can be accomplished by choosing individual stocks carefully. However, this can also be accomplished by investing in mutual funds.

4. Ask the students the following questions:
   a. **What are stocks?** *(Stocks are shares in the ownership of a business.)*
   b. **Why are stocks called equities?** *(Equity means ownership, and stocks are ownership in a corporation.)*
   c. **What is the difference between stocks and bonds?** *(Bonds are a debt of the issuer to the bondholder; stocks show ownership.)*



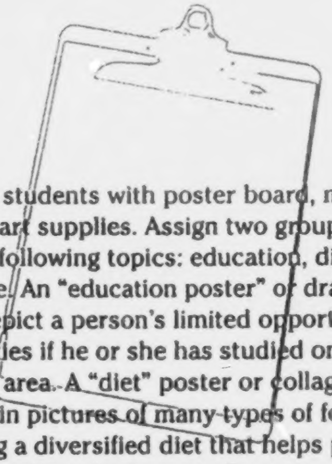
d. What is a primary market? *(It is the market where stocks are offered for the first time.)*

e. What are secondary markets? *(Secondary markets are those markets in which stocks can be bought or sold after being initially issued.)*

f. What are the risks associated with stock ownership? *(There is no guarantee of return on your investment. The price of the stock could go down or gain more slowly than other financial investments. The company could go bankrupt and the stockholder would likely lose his or her entire investment.)*

g. What are the returns for stocks? *(Dividends and capital gains.)*

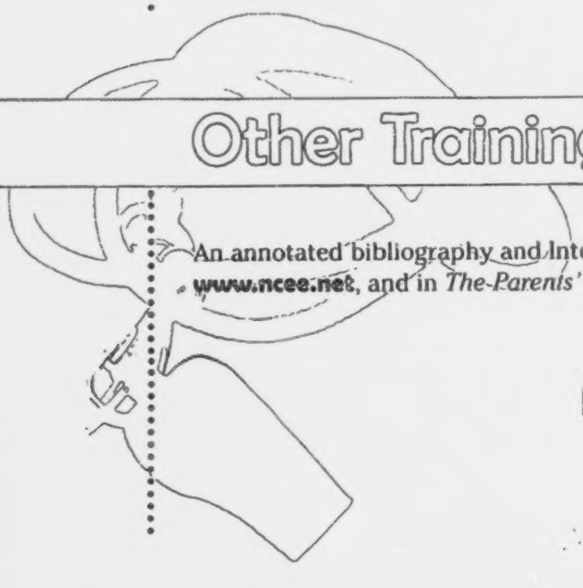
Assessment



1. Explain that education offers many different areas of study. Students study math, history, language arts, science, and other subject areas. Ask the students to consider what their adult lives would be like if all they learned in school were math. Explain that there is diversity in the education they receive. Education provides an analogy for the importance of diversity in investments.
2. Place the students in six groups. Tell the students that they are to present an analogy of a diversified or undiversified stock portfolio in collage form or in a drawing. Be sure that students understand what an analogy is. *(A similarity between two things that can be compared.)*

Provide the students with poster board, magazines, and art supplies. Assign two groups each of the following topics: education, diet, and exercise. An "education poster" or drawing could depict a person's limited opportunities or abilities if he or she has studied only one subject area. A "diet" poster or collage could contain pictures of many types of foods representing a diversified diet that helps people remain healthy. An "exercise" poster or collage could include a depiction of what a person would look like if he or she only performed leg exercises at the gym.

3. Have each group make an oral presentation of their analogy as to why a diversified stock portfolio is important for financial health and well-being.



Other Training Equipment

An annotated bibliography and Internet resources can be found on our web site, **www.ncee.net**, and in *The Parents' Guide to Shaping Up Your Financial Future.*

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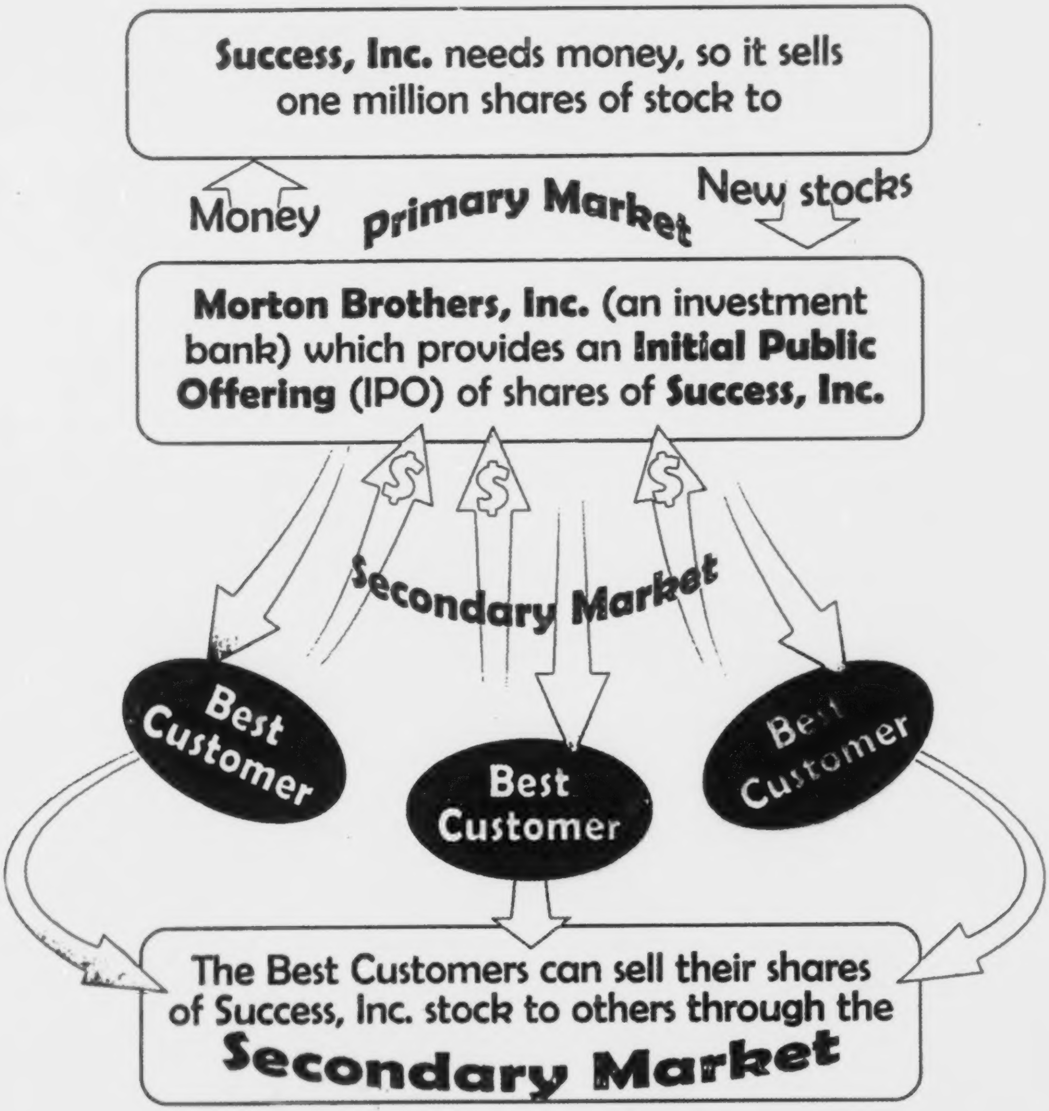
Visual 9.1

Steps in the Life of a Stock

A stock can have a very long life. Stocks are little pieces of ownership in a corporation. As long as the corporation lives, so can its stocks. The following explains how a stock comes into existence and how the ownership of a company is traded among many people.



Success, Inc. needs money, so it sells one million shares of stock to

Morton Brothers, Inc. (an investment bank) which provides an **Initial Public Offering** (IPO) of shares of **Success, Inc.**

The Best Customers can sell their shares of Success, Inc. stock to others through the **Secondary Market**

Money
Primary Market
New stocks
$
$
$
Secondary Market
Best Customer
Best Customer
Best Customer

Visual 9.2

The Secondary Markets

Secondary markets are those markets in which stocks can be bought or sold after the initial public offering (IPO).

The major U.S. secondary markets are:

New York Stock Exchange (NYSE)

American Stock Exchange (AMEX)

NASDAQ

THEME 3

LESSON 10

Let Lenders and Borrowers Be

Fitness Focus

EQUIPMENT AND GETTING READY!

Make an overhead transparency of the visual listed here.

- ✓ Visual 10.1, ***Everybody's Community Bank***
- ✓ Introductory reading for Lesson 10 ***(Shaping Up Your Financial Future Student Workouts)***
- ✓ Exercise 10.1, ***Calamity in Cow Town (Shaping Up Your Financial Future Student Workouts)***
- ✓ Reading 10.1, ***Meet Me at the Stock Market (Shaping Up Your Financial Future Student Workouts)***
- ✓ Assessment Sheet 10.1, ***Financial Terms (Shaping Up Your Financial Future Student Workouts)***

TIME REQUIRED
1 to 2
class periods

LESSON DESCRIPTION AND BACKGROUND

Financial intermediaries perform an important function in our economy. Financial institutions accept deposits from those who want both a safe haven for their funds and income from the use of their funds. These institutions also lend funds to people who want to borrow. Investment bankers and stockbrokers perform a similar function in that they bring together those who wish to sell equities with those who wish to invest. The managers of institutions, such as pension funds and mutual funds facilitate the transfer of money and investments. These are called *institutional investors.* In this lesson, the students learn the functions of financial intermediaries. They will recognize the benefits of successful transfers of funds and the opportunity costs of the decisions associated with the transfer of funds.

This lesson is correlated with national standards for mathematics and economics as well as the national guidelines for personal financial management as shown in Tables 1 through 3 in the front of the book.

ECONOMIC AND PERSONAL FINANCE CONCEPTS

Financial intermediaries, interest, opportunity cost, institutional investors, operating costs, profit

PARENT CONNECTION

There is no specific family activity for this lesson, but there are activities in *The Parents' Guide to Shaping Up Your Financial*

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Future that parents may want to use with this lesson. These activities can be found in the "Raising the Bar" section of Theme 3.'

The Parents' Guide is a tool for reinforcing and extending the instruction provided in the classroom. It includes:

1. Content background in the form of frequently asked questions.
2. Interesting activities that parents can do with their son or daughter.
3. An annotated listing of books and Internet resources related to each theme.

Workout

WARM-UP

1. Remind the students that in a previous lesson they learned about several methods for saving money. All of the methods they learned about (savings accounts, certificates of deposit, money market deposit accounts, and U.S. Savings Bonds) are guaranteed in one way or another by the federal government. All of these savings methods are available through *financial intermediaries;* that is, institutions that transfer money from people who have saved money to people who want to borrow money.
2. Explain that the decisions of savers, bankers, and borrowers are affected by opportunity cost.
3. Define opportunity cost as the highest forgone alternative when a decision is made.

Student Objectives

At the end of this lesson, the student will be able to:

✓ Define and describe the different types of financial intermediaries.

✓ State that the price of money is interest and explain that the rate of interest is determined by supply and demand.

✓ State the functions of institutional investors operating in the stock market.

✓ State the opportunity cost incurred by savers, borrowers, stockholders, corporations issuing stocks, and banks.

EXERCISE

1. Everybody's Bank and Opportunity Cost

- **a.** Display Visual 10.1. Explain that financial intermediaries, such as banks, credit unions, and savings and loan associations, are financial institutions that bring savers and borrowers together.
- **b.** Direct the students' attention to *Everybody's Bank*. Savers deposit money in the bank to earn interest. The interest received must exceed the next best alternative that they have for saving. For example, if savers could get six percent on their savings deposit elsewhere, many would move their savings. Everybody's Community Bank would have to pay at least six percent to attract and keep deposits.
- **c.** Explain that Everybody's Bank is in business to make a profit for its owners. Profit is the payment to bank owners who have

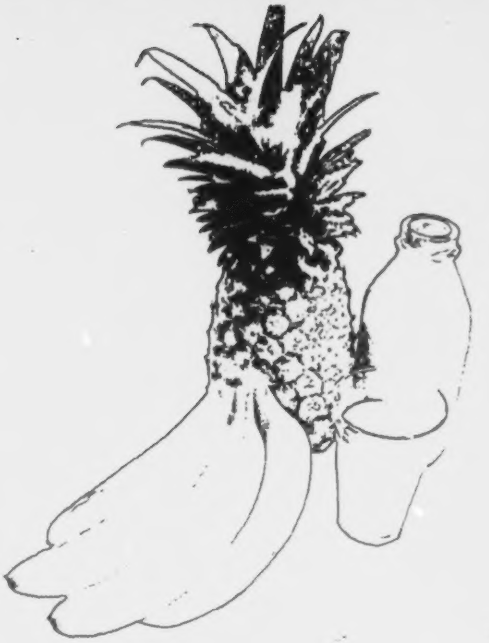
many alternative uses for their money. As long as the expected profit of bank ownership is greater than the expected profit of the alternative uses, the owners will remain bank owners. Profits are gained from the revenues of the bank. The greatest share of the bank's revenue comes from interest paid by borrowers. The bank's costs include employees' wages, rent for office space, and other operating costs. These are the costs of doing business. Another cost is the interest payments the banks must make to those who have deposited money into the facility. Profits or losses are the difference between revenues and expenses.

d. Point out that borrowers try to borrow money at the lowest interest rate possible. They also experience opportunity cost in borrowing, which is giving up future income to pay back the loan and the interest.

e. Explain that borrowers pay interest to compensate lenders for the use of borrowed money. The bank charges interest to cover a portion of the bank's cost of doing business, and to partially compensate bank owners. Therefore, interest is the price of the loan.

f. Have the students read the *Warm-Up, Fitness Vocabulary, Muscle Developers*, and *Showing Your Strength* of Lesson 10 in *Student Workouts*. Discuss any of the concepts which are difficult for the students to understand.

g. Remind the class that in the *Workouts* materials for this lesson, they were asked to think of the bank or other financial intermediary as a supermarket where an exchange can be made. For instance, a producer wants to sell milk and a consumer wants to buy milk. The supermarket offers the producer and the consumer a place where that exchange can happen. As with the working of other markets, the price is established through the interaction of buyers and sellers. Tell the class that the next activity shows how that interaction occurs.



2. Calamity in Cow Town and the Cost of Credit

a. Direct the students to Exercise 10.1, *Calamity in Cow Town*. After the students have completed the questions, discuss the answers as follows.

1. *The demand increased when people's taste for milk increased. One factor that can affect the demand for a product is a change in people's tastes and preferences.*
2. *The quantity of milk supplied stayed the same. The cows could only produce the same amount of milk and there wasn't enough time for farmers to adjust the size of their herds.*
3. *The price of milk went up because demand increased while supply stayed constant.*
4. *The price of these items most likely increased also. They were complements to the milk, meaning they were items that were bought along with the milk. When the demand of an item goes up, the demand for its complement also goes up. So when the demand for milk increased, the demand for bananas and pineapple juice also increased. Therefore, the price of bananas and pineapple juice increased.*

5. *The farmers in the town would have liked to have increased their milk production because they could get a higher price for their milk. However, it would be difficult for them to increase their production without getting more cows, and that takes time.*

b. Explain that supply and demand of money through financial intermediaries determines the interest rate, which is the price of money. This is similar to how the supply and demand of milk through the grocery store determines the price of milk.

c. Explain that savers, who are the suppliers of funds, will be willing to save more money at higher interest rates and less money at lower interest rates. Remind the students that this is similar to farmers who would be willing to supply more milk at higher prices and less milk at lower prices. The farmer would take the money budgeted for savings, or spending for other items needed for the farm, and would spend the money to buy more cows. The opportunity cost would be the other things the farmer could have had with the money. In the same way, savers have other uses for their money. The interest rate must be high enough to encourage savers not to spend their money but to save it.

d. Point out that borrowers, on the other hand, are the demanders of funds. They will borrow less money at higher interest rates and more money at lower interest rates. Borrowers also have an opportunity cost. The higher the interest rate, the more things they will have to give up because of the higher interest.

e. Explain that, in general, the rate of interest paid to savers and paid by borrowers is determined in the marketplace by supply and demand. What savers provide in savings and what borrowers buy in the way of loans relates to how they view the opportunity cost of savings and borrowing at different prices (interest rates.)

3. Stocks

a. Explain that businesses are a major group seeking funds. From time to time, businesses need money to increase the size of operations. A business can borrow from banks, but it can also acquire money by selling a part of its ownership. In the same way that banks and other financial intermediaries bring savers and borrowers together, the investment banker brings the corporations (sellers of stock) and individuals or organizations (buyers of stock) together. The goals for the parties are the same. People who loan money or buy part of a company's ownership are doing so to earn income. Businesses that borrow or sell part of their ownership are trying to raise funds.

b. The stock market brings those who want to purchase shares of ownership together with those who want to sell shares of ownership. Remind the students that in the last lesson they learned about the stock market. Other kinds of financial intermediaries operate in the stock market. They are investment bankers and managers of brokerage firms, pension funds, and mutual funds.

c. Refer the students to Reading 10.1, *Meet Me at the Stock Market*. When the students have finished, discuss the reading by asking the following questions:

▲ **What are some examples of institutional investors?** *(Managers of brokerage firms, pension funds, mutual funds.)*

▲ **What is the goal of institutional investors?** *(To make money for their clients.)*

▲ **How do institutional investors decide which stocks to buy?** *(Institutional investors investigate companies to see which look financially sound and have good growth potential.)*

- ▲ **In what way do mutual funds, pension funds, and brokerage firms act as financial intermediaries?** *(They bring together people who wish to purchase ownership [their clients] with those who wish to sell ownership.)*

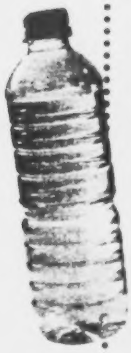
d. Explain that those who buy partial ownership in a corporation are called shareholders. Opportunity cost is as important to shareholders as it is to savers and borrowers. When institutions or individuals buy partial ownership in a company, they expect that the company will do well and earn a profit. As shareholders, they will share in part of the profit. A shareholder could use the money he or she spent on shares in the company to make other investments or to spend on goods and services.

e. Explain that corporations that sell partial ownership also experience opportunity cost. They give up shares of the ownership and the profit that those shares would have earned.

f. Explain that if a shareholder is not getting the expected return, he or she may sell the stock through the stock market to someone who is willing to buy it.

g. Ask the following questions:

- ▲ **Why would a company be willing to give up part ownership?** *(By selling shares of the ownership, a company raises money to expand business.)*
- ▲ **What is the opportunity cost incurred by someone who buys shares in a corporation?** *(Someone who buys shares gives up other investments or goods and services that could have been purchased with that money.)*
- ▲ **What can a shareholder do if he or she isn't earning the expected return?** *(The shareholder can sell the shares through the stock market.)*



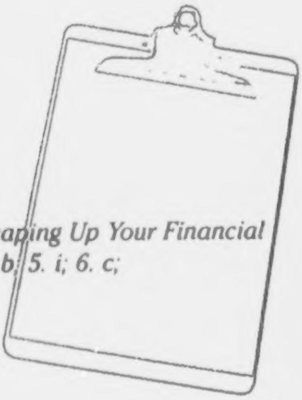
COOL DOWN

Review the main concepts of the lesson by asking the following questions.

- ▲ **What are financial intermediaries?** *(Institutions that transfer funds to those who want them from those who have them.)*
- ▲ **What are some examples of financial intermediaries?** *(Banks, credit unions, savings & loan associations, pension funds, mutual funds, brokerage firms.)*
- ▲ **What is the price of money that is saved or borrowed?** *(Interest.)*
- ▲ **How is the rate of interest determined?** *(Supply and demand.)*
- ▲ **Why would savers want to be a part of the banking process?** *(Savers deposit savings in financial institutions that yield them a level of interest income exceeding the next best alternative for their savings.)*
- ▲ **Why would borrowers want to be a part of this process?** *(Borrowers can get money they want to make purchases and pay the money back over time.)*
- ▲ **Why would banks want to be a part of this process?** *(Banks earn income by facilitating exchange among those who wish to save and those who wish to borrow. Banks profit by making wise loans with their deposits.)*
- ▲ **Why are interest rates different for borrowers and savers?** *(A bank charges an interest rate to borrowers that is sufficient to cover its operating cost, its interest payments to savers, and provide a profit to bank owners.)*
- ▲ **What might happen if borrowers failed to repay debts and interest?** *(The bank would not be able to cover its costs, and it would fail.)*

- **What is the goal of an institutional investor?** *(Institutional investors want to make money for their clients.)*
- **How do businesses benefit from their involvement with institutional investors?** *(Businesses raise money by selling part of their ownership. Institutional investors bring those who want to buy ownership together with those who want to sell ownership.)*

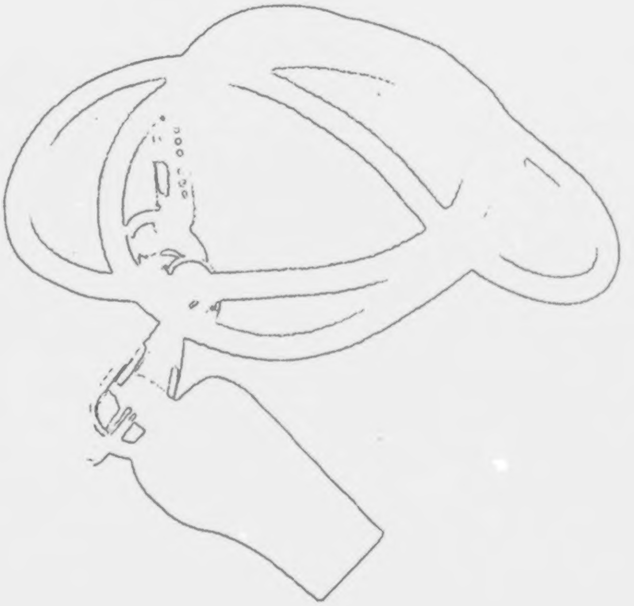
Assessment



Have the student complete assessment sheet 10.1 *Financial Terms* (*Shaping Up Your Financial Future Student Workouts*). The answers are as follows: *1. h; 2. d; 3. f; 4. b; 5. i; 6. c; 7. a; 8. g; 9. e.*

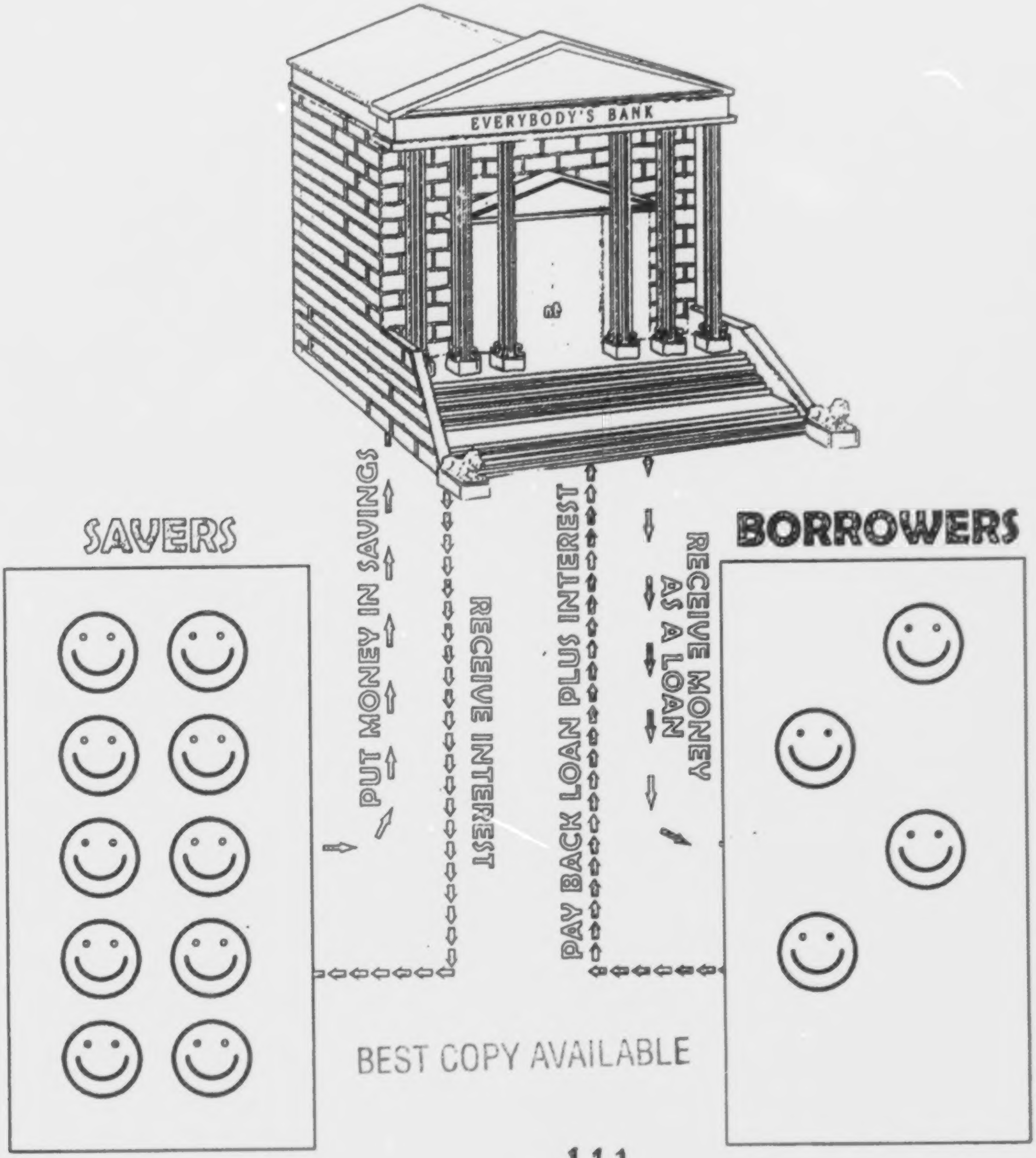
Other Training Equipment

An annotated bibliography and Internet resources can be found on our web site, **www.ncee.net**, and in *The Parents' Guide to Shaping Up Your Financial Future.*



Visual 10.1

Everybody's Bank


EVERYBODY'S BANK
SAVERS
BORROWERS
PUT MONEY IN SAVINGS
RECEIVE INTEREST
PAY BACK LOAN PLUS INTEREST
RECEIVE MONEY AS A LOAN

BEST COPY AVAILABLE

THEME 3

LESSON 11

Saving and Investing Are Risky Business

Fitness Focus

EQUIPMENT AND GETTING READY!

Make an overhead transparency of the visual listed here.

- ✔ Visual 11.1, *Nothing is Risk-Free*
- ✔ Introductory reading for Lesson 11 *(Shaping Up Your Financial Future Student Workouts)*
- ✔ Exercise 7.1, *Types of Guaranteed Savings Instruments (Shaping Up Your Financial Future Student Workouts)*
- ✔ Exercise 11.1 *Now or Later? (Shaping Up Your Financial Future Student Workouts)*
- ✔ Exercise 11.2 *Decisions, Decisions (Shaping Up Your Financial Future Student Workouts)*
- ✔ Exercise 11.3 *Yield to the Investor (Shaping Up Your Financial Future Student Workouts)*
- ✔ Assessment 11.1, *Weighing All the Risks (Shaping Up Your Financial Future Student Workouts)*
- ✔ 103 pennies
- ✔ Calculators (one for each student)
- ✔ Newspaper or advertising pictures of items such as televisions, DVD player, car stereo system, clothing items, computer equipment.
- ✔ Internet access to sites, such as **www.money-rate.com** for the students to do extra credit work.

LESSON DESCRIPTION AND BACKGROUND

In this lesson, the students learn that savings and investment instruments carry various types of risk. Students learn about the risks of inflation, interest rate fluctuation, and financial loss. With any type of investment, there is at least one kind of risk. They also learn that risk must be measured against reward.

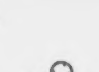
This lesson is correlated with national standards for mathematics and economics as well as the national guidelines for personal financial management as shown in Tables 1 through 3 in the front of the book.

Student Objectives

At the end of this lesson, the student will be able to:

- ✔ Explain that all savings plans and investments carry risk.
- ✔ Match the types of risk with the savings plans and investments.
- ✔ State the opportunity cost associated with saving and investment.

ECONOMIC AND PERSONAL FINANCE CONCEPTS



Opportunity cost, inflation risk, interest rate risk, risk of financial loss, savings account, certificate of deposit, money market deposit account, U.S. savings bond

PARENT CONNECTION

There is no specific family activity for this lesson, but there are activities in *The Parents' Guide to Shaping Up Your Financial Future* that parents may want to use with this lesson. These activities can be found in the "Raising the Bar" section for Theme 3.

The Parents' Guide is a tool for reinforcing and extending the instruction provided in the classroom. It includes:

1. Content background in the form of frequently asked questions.
2. Interesting activities that parents can do with their son or daughter.
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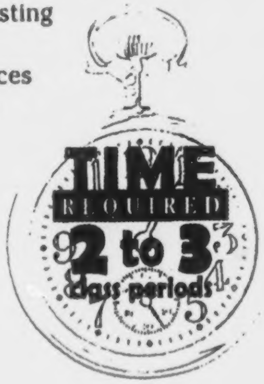


Workout

WARM-UP

1. Introduce the lesson by noting that one reason people use savings accounts is that they believe that savings accounts are risk-free. Explain that most banks and savings and loan associations carry insurance on their savings accounts through the Federal Deposit Insurance Corporation (FDIC). The FDIC insures an individual's accounts in one institution up to $100,000. In other words, if the bank or savings and loan closes and it is insured (most are), the depositors will get all their money back from the FDIC if they have $100,000 or less deposited in that bank. The same type of insurance is available from the National Credit Union Association (NCUA) for credit unions. The federal government guarantees the repayment of savings bonds, which provides about as much security as one can have in a savings plan.

2. Explain that the amount of the principal is secure with these plans. There is little risk of losing one's investment or principal. *Principal* is the amount of money placed in the account by the saver. Savers do not risk losing their savings; however, they do face other risks that are important to understand.

3. Have the students read the *Warm-Up, Fitness Vocabulary, Muscle Developers*, and *Showing Your Strength* for Lesson 11 in *Student Workouts.* Discuss the concepts that are difficult for the students.

EXERCISE

1. Inflation Risk

a. Invite a volunteer to the front of the class. Give the volunteer 100 pennies and explain that each penny represents $10. Ask the class how much money the volunteer has? *($1,000)* Explain to the volunteer that she or he could purchase a top-of-the-line stereo system for $1,000 but has decided to wait until next year to purchase the stereo system. He or she places the money in a regular savings account. Even though the interest rate on a regular savings account can fluctuate over time, explain that the interest rate did not change throughout the year and the volunteer received three percent interest on his or her $1,000. Ask how much the volunteer has after one year in his/her account? *($1,030)* You may have to review how interest is figured. The formula is:

Interest =
Principal × Interest Rate × Time
(Based on One Year)

Give the volunteer three more pennies.

b. Display Visual 11.1, *Nothing is Risk-Free*, and discuss inflation risk. This is the risk that the value of investments will not increase at least as rapidly as the rate of inflation. *Inflation* is a general rise in prices. When prices increase, your money is worth less and you lose buying power.

c. Explain to the class that the rate of inflation for the year was four percent. If the price of the stereo increased at the rate of inflation, the price of the stereo will now be priced at *$1,040* (*1.04 × $1000*). Ask the class if the volunteer has enough money to buy the stereo now. (*No, the saver is worse off now because he or she has lost purchasing power over the year.*) The student was guaranteed that she/he would not lose any of the money placed in the account and that interest would be gained, but inflation risk shows that the earned interest was not sufficient to maintain the purchasing power of the money. Have the student return to his/her seat.

d. Repeat that inflation is a general rise in the price level. This means that not all items increase in price, but on average prices have increased. Some items may not increase at the rate of inflation, while others will exceed this rate.

e. Refer the students to Exercise 11.1, *Now or Later?* in *Student Workouts* and, if possible, display pictures of the five items cut from store ads or magazines. The students will calculate the percentage change in the price of each item.

Discuss the questions on Exercise 11.1. The percentage change answers are listed in the table below. The amount in the account at the end of the year is $1,004.25. The answers to the questions follow:

1. *The computer and the camcorder.*
2. *None.*
3. *One year's wardrobe.*
4. *Computer.*
5. *The television, the car stereo system, and one year's wardrobe.*

f. Direct the students back to the description of certificates of deposits in Reading 7.1 (from Lesson 7 in *Student Workouts*). Explain that certificates of deposit (CDs) offer a higher interest rate than a statement savings account and a guarantee that the interest rate will stay the same throughout the period that the saver owns the CD. Suppose someone purchases a CD

Answers to Exercise 11.1, Now or Later?

Item	Last year's price	This year's price	% change
computer	$ 997.00	$ 897.30	−10
digital camcorder	$1,005.00	$ 954.75	−5
digital television	$1,000.00	$1,070.00	+7
car stereo system	$ 995.00	$1,074.60	+8
one year's wardrobe	$ 995.00	$1,094.50	+10

for $1,000 that pays six percent interest annually but must be held by the saver for two years. Ask the class to calculate the amount of interest the saver will get over two years. Explain that in this case, the bank will compound the interest annually, meaning it will award interest at the end of year one and then again at the end of year two. *($1,000 × .06 × 1 = $1,060 after year one. $1,060 × .06 × 1 = $1,123.60 after two years).*

g. Instruct the class to calculate how much the digital television, the price of which is $1,000 this year, would cost after two years at an annual inflation rate of four percent the first year and seven percent the second year. We are assuming that the television increases in price at the same rate as inflation. *($1,000 × .04 = $1,040 after year one. $1,040 × .07 = $1,112.80 after year two).* Ask if the saver would have enough money to buy the television if the money were kept in a CD. *(Yes.)* Explain that the saver retained more purchasing power because he or she gained over the inflation rate the first year. In this case, the purchasing power was maintained but the savings gained very little new purchasing power.

2. Interest Rate Risk

a. Point out a second type of risk, referring back to Visual 11.1. *Interest rate risk* is the risk that interest rates may change while the saver is "locked in" to a time deposit. This can be good for the saver if interest rates go down. If interest rates go up, the saver will "lose" the additional interest possible if the rate were not fixed.

b. Indicate that generally as inflation increases, interest rates increase. Notice in the last example that there was a four percent inflation rate one year and a seven percent inflation rate over the next year. During the first year, the CD paid over the inflation rate; in fact, it paid six percent. But during the last year, it did not keep up with inflation because it was locked in at a lower rate. Probably the new CDs during that second year were yielding more than seven percent. So, during the last year, the money was not earning as much as it could because it was tied up in a savings plan where it could not be removed without penalty.

c. Use Exercise 7.1 to review the nature of the statement savings account, money market deposit account, and U. S. Savings Bond. Point out that the interest rate for the money market deposit account is flexible, as are the interest rates for U.S. Savings Bonds and for statement savings accounts. This is particularly advantageous in an inflationary time. As interest rates spiral upward in the market, these savings instruments also pay a higher rate.

3. Summary Exercise—Refer students to Exercise 11.2, *Decisions, Decisions*, in *Student Workouts*, and ask the students what they would do in the stated situations. The answers are:

a. *Statement savings account would be the best choice; the fact that interest rates may be decreasing is immaterial in this situation since you want the money readily available, and there is not enough savings for a CD or a money market deposit account.*

b. *Money market deposit account or statement savings account are the best choices. You have enough savings to secure a money market deposit account. You want to take advantage of the increasing rates.*

c. *Certificate of deposit of less than three years would be the best choice because you want to lock in the higher rate. You have enough savings to buy a CD.*

d. *U.S. Savings Bond would be the best choice; you have a small amount, so CDs and the money market are not available to you; savings bonds generally pay a better rate than statement savings accounts. They can also have a tax advantage, especially if used for education.*

e. *Money market deposit account or a statement savings account would be the best choice if the periodic withdrawals are unpredictable.*

4. Risk of Financial Loss

a. Ask if anyone has heard of the "Great Depression"? What happened during that time? Indicate that during that time many people went bankrupt because of their losses on the stock market. This points out a third type of risk, which is the financial risk, or risk of losing principal (the amount invested or saved) or the return on the principal.

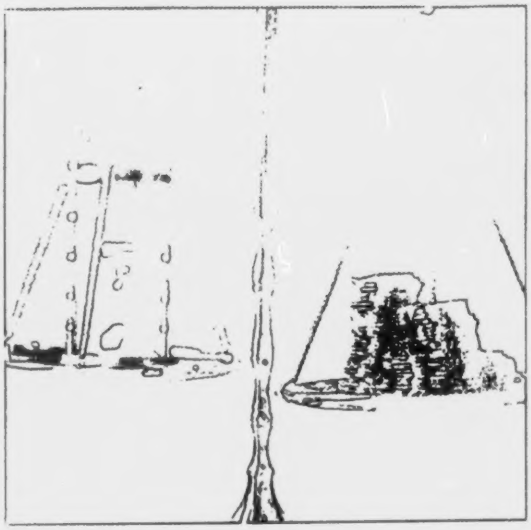
b. Show Visual 11.1, which defines the risk of loss as the possibility of losing the amount invested, or the principal.

c. Have the students look at Exercise 7.1 again and decide what the financial risk is for these savings plans. *(Students should indicate that there is very little risk of loss of principal if a savings bank fails because FDIC insurance protects against loss for savings accounts, certificates of deposits, and money market deposit funds. The United States Government stands behind the repayment of U.S. Savings Bonds. There is a risk of some financial loss for CDs and U.S. Savings Bonds if they are cashed prior to the maturity date.)*

d. Ask students why stocks carry substantially more risk of principal loss than the savings plans? *(Stocks show ownership in a corporation; there is no insurance or guarantee from the government that the firm will make a profit or be successful.)*

5. Rate of Return: A Way to Compare Investments

a. Indicate that in a market economy, there is a general principle that investments with greater risk have the possibility of a greater return. In order to compare the returns from different saving or investment choices, one must know how to figure the rate of return. The rate of return is based on the percentage return an investment has made during the year.



c. Show students how to determine the annual return from a savings account.

$$\frac{\text{Amount of Interest}}{\text{Amount Invested}} \times 100 = \text{percent}$$

Suppose that Sue received \$50 on her savings account. The amount that she had in her savings account at the beginning of the year was \$1,000. She did not put any additional deposits into the account.

$$\frac{\$50}{\$1{,}000} = .05$$

$$.05 \times 100 = 5\%$$

d. Indicate that the return for stock is based on two figures—dividends and capital gains or losses. The *capital gains or losses* are the difference between the purchase price and the market price at the end of the year. Technically, capital gains or losses are figured only when a stock has been sold. For purposes of figuring the rate of return for the year, one must use the end of the year figure. For example, if someone pays \$40 for a stock and at the end of the year the stock is selling at \$50 the capital gain (if sold) would be \$10. If the stock were selling at \$30, the capital loss would be \$10 per share.

The formula for figuring the rate of return on an investment for a stock is as follows:

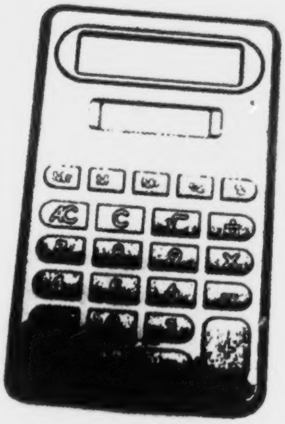
$$\frac{\text{Dividend During Year} + \text{Capital Gain or Loss}}{\text{Amount Invested}} \times 100 = \%$$

Suppose that Justin bought 100 shares of stock at $30 per share at the beginning of the year. The stock paid $2 in dividends per share during the year, and is selling at $31/share at the end of the year. What is the estimated rate of return if one sold the stock at the end of the year?

$$\frac{(\$2 \times 100) + (\$1.00 \times 100)}{\$3{,}000} \quad \frac{\$200 + \$100}{\$3{,}000} \times 100 = 10\%$$

Distribute Exercise 11.3, *Yield to the Investor*, that asks students to determine the rate of return on various types of investments and savings plans. The answers are as follows:

1. *3%*
2. *10%*
3. *12%*
4. *2%*
5. *Number three has the best return. Stockholders are entitled to a better return than what is gained from a savings account because they assume more risk in owning stocks.*



COOL DOWN

Remind the students that each type of savings or investment instrument carries risk. Review these types of risk by asking the following questions:

- ▲ **Describe inflation risk.** *(This is the risk that the value of investments will not increase at least as rapidly as the rate of inflation.)*
- ▲ **What types of savings instruments that we have studied would carry inflation risk?** *(All savings instruments carry inflation risk.)*
- ▲ **Describe interest rate risk.** *(This is the risk that interest rates may change while the saver is "locked in" to a deposit for a period of time.)*
- ▲ **What types of savings instruments that we have studied would carry higher interest rate risk?** *(Certificates of deposit.)*
- ▲ **Describe risk of financial loss.** *(This is the risk of losing principal, the amount of money invested.)*
- ▲ **Do stocks or bonds generally carry a greater risk of financial loss?** *(Stocks.)*

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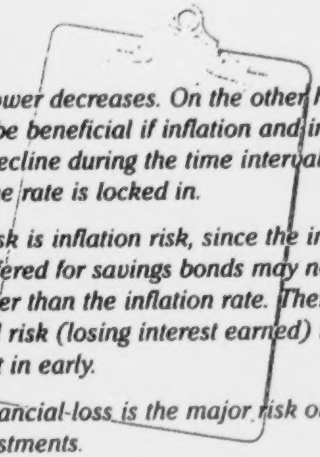
Assessment

Have student complete Assessment 11.1, *Weighing All the Risks*, in *Student Workouts*. The answers are:

1. *Savings accounts carry an inflation rate risk. Even though the rate increases with the general increase in interest rate, the low rate on these accounts may not keep up with inflation.*
2. *Primary risks for a certificate of deposit (CD) are interest rate risk and inflation risk. These may be a problem if inflation and interest rates increase during the time of the CD purchasing power decreases. On the other hand, a CD can be beneficial if inflation and interest rates decline during the time interval because the rate is locked in.*
3. *Primary risk is inflation risk, since the interest rate offered for savings bonds may not be much higher than the inflation rate. There is a financial risk (losing interest earned) if you cash it in early.*
4. *Risk of financial-loss is the major risk of stock investments.*



Other Training Equipment

An annotated bibliography and Internet resources can be found on our web site, **www.ncee.net**, and in *The Parents' Guide to Shaping Up Your Financial Future*.

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Visual 11.1

Nothing is Risk-Free

Inflation risk: Risk that the value of investments will not increase at least as rapidly as the rate of inflation.

Interest rate risk: Risk that interest rates may change while the saver is "locked in" to a time deposit.

Financial Risk: Risk of losing principal (the amount of money invested), and the return on the principal.

SPENDING AND CREDIT ARE SERIOUS BUS
(SPENDING AND USING CREDIT)

THEME 4

LESSON 12

Cash or Credit?

Fitness Focus

EQUIPMENT AND GETTING READY!

Make overhead transparencies of the visuals listed here.

- ✓ Visual 12.1, ***Advantages and Disadvantages of Various Methods of Payment***
- ✓ Visual 12.2, ***How a Check Works***
- ✓ Visual 12.3, ***How a Credit Card Works***
- ✓ Introductory reading for Theme 4 and Lesson 12 ***(Shaping Up Your Financial Future Student Workouts)***
- ✓ Exercise 12.1, ***So Many Credit Card Offers: What's the Difference? (Shaping Up Your Financial Future Student Workouts)***
- ✓ Exercise 12.2, ***Cash or Credit? You Be the Judge (Shaping Up Your Financial Future Student Workouts)***
- ✓ Exercise 12.3, ***Understanding a Credit Card Statement (Shaping Up Your Financial Future Student Workouts)***
- ✓ Assessment 12.1, ***Rubric for Evaluating Panel Discussion (Shaping Up Your Financial Future Student Workouts)***
- ✓ Family Activity 7, ***Credit Card Coin Toss (The Parents' Guide to Shaping Up Your Financial Future)***
- ✓ Credit Card Application Forms—one for each student. You will need to collect these ahead of time, or have students bring in those their parents receive.

LESSON DESCRIPTION AND BACKGROUND

Most students are aware of the variety of spending options available to consumers. Cash, checks, debit cards, and credit cards are often used by their parents; however, the students probably do not understand the implications of each. This lesson examines the advantages and disadvantages of various payment methods and focuses especially on credit usage. The students are challenged to calculate the cost of credit, compare credit card agreements, and analyze case studies to determine whether credit is being used wisely. In the Family Activity, the students and their families will examine the extent of credit and debt in the United States economy and participate in a game comparing credit card criteria.

This lesson is correlated with national standards for mathematics and economics as well as the national guidelines for personal financial management as shown in Tables 1 through 3 in the front of the book.

Student Objectives

At the end of this lesson, the student will be able to:

- ✓ Differentiate between forms of cash payment and credit.
- ✓ Compare the advantages and disadvantages of using credit.
- ✓ Explain how interest is calculated.
- ✓ Analyze the opportunity cost of using credit and various forms of cash payments.
- ✓ Evaluate the costs and benefits of various credit card agreements.

ECONOMIC AND PERSONAL FINANCE CONCEPTS

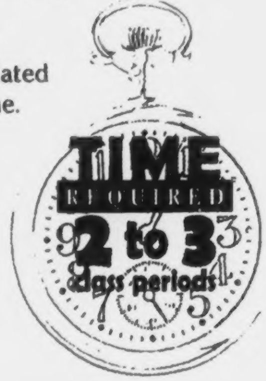
Interest, interest rate, credit, opportunity cost, inflation.

PARENT CONNECTION

Refer to Family Activity 7, *Credit Card Coin Toss* in *The Parents' Guide to Shaping Up Your Financial Future*. Ask the students to complete the activity at home and encourage them to share with their families what they have learned about the advantages and disadvantages of using credit.

The Parents' Guide is a tool for reinforcing and extending the instruction provided in the classroom. It includes:

1. Content background in the form of frequently asked questions.
2. Interesting activities that parents can do with their son or daughter.
3. An annotated listing of books and Internet resources related to each theme.



Workout

WARM-UP

1. Introduce the lesson by asking the students to name some different ways people can pay for goods and services. Guide their responses to make sure that credit is one of them. *(Possible responses should include cash, check, debit card, gift certificate, credit card.)* Write their suggestions on Visual 12.1.
2. Ask students to suggest advantages and disadvantages of each payment method, and write their ideas on the overhead transparency. *(Suggested answers in the table on next page.)*
3. Explain that cash, checks, or debit cards are forms of money. They can be used as a medium of exchange in most transactions.
4. Explain that credit is not money, but is actually a loan. When a person uses a credit card, his or her signature on the credit receipt verifies an agreement to pay back the money at a later date, with interest if not paid by a certain time.
5. Display Visual 12.2, *How a Check Works,* and Visual 12.3, *How a Credit Card Works.* Discuss the processes, making sure the students understand that a check is drawn on an existing account, and credit is an I.O.U.—a loan—that must be repaid, usually with interest.
6. Review the concept of opportunity cost, the next best alternative that is given up when a choice is made. Ask what Chad's opportunity

Bank of America
Platinum
4227 1234 5678
VALID DATES
05/00 - 05/03
T. SMITH
MEMBER SINCE 95
VISA
VISA
- 05/03

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	Advantages	Disadvantages
Currency (Paper money)	Fast, no paperwork, acceptable.	Can be stolen, lost; might not have enough. Cannot be used for telephone or Internet purchases.
Coins	Fast, no paperwork, acceptable.	Heavy, can be stolen or lost, only small purchases. Cannot be used for telephone or Internet purchases.
Check	Safe, good for different amounts.	Might not be accepted, need identification, must record each check amount, limited by amount in checking account. Cannot be used for telephone or Internet purchases.
Gift Certificate	Just like currency.	Only good at specific store, sometimes need identification. May have expiration date.
Debit Card	Safe, confidential, no need for cash.	Must record each purchase amount, limited by amount in checking account. Need to remember PIN. May not be accepted.
Credit	Safe, not responsible for all purchases made on stolen card. Can be used for telephone or Internet purchases.	Must pay interest; may incur fees if balance not paid by due date. May not be accepted.

cost was when he spent $50 at the music shop and paid with a check. *(He gave up the opportunity to earn interest on the $50 or to buy something else with the $50, which ever would have been his next best choice.)*

7. Ask what Chad's opportunity cost was when he bought the video game and used his credit card. *(His opportunity cost lies in the future. He will have to give up the opportunity to buy something else with the $50 he has to pay back when the credit card bill is due.)*

8. Have the students read the *Introduction* to Theme 4 and the *Warm-Up, Fitness Vocabulary, Muscle Development* and *Showing Your Strength* for Lesson 12 in *Student Workouts.* Discuss the new vocabulary, and make sure the students understand the concepts.

EXERCISE

1. Choosing a Credit Card

a. Display a number of credit card applications that you have clearly marked "VOID" and from which you have deleted any personal information. Review the relevant vocabulary (annual fee, annual percentage rate, grace period, interest rate, minimum payment.)

b. Distribute one application to each student, and have the students work in pairs, using their two applications to complete Exercise 12.1, *So Many Credit Card Offers: What's the Difference?* in *Student Workouts. (Answers will vary, but students should note that they need to analyze all aspects of an offer, i.e. interest rate, grace period, minimum payment, etc. before deciding which offer is best..)*

c. Explain that choosing a credit card should be like choosing any other goods or services. People should shop around and compare different credit cards before making a decision.

d. Explain that credit offers consumers the opportunity to enjoy a product while they are paying for it. Another good thing about credit is that it allows a consumer to take advantage of sales to buy goods or services at a lower price when the consumer does not have enough money.

e. Distribute calculators to the students and review the math processes required to calculate interest. (If some of the students are proficient with spreadsheets, you may wish to have them construct a spreadsheet to complete this activity.)

f. Have the students work in pairs to complete Exercise 12.2, *Cash or Credit? You Be the Judge* in *Student Workouts*. Answers follow:

1. *Elizabeth—Because of inflation the stereo will cost $1,030; Elizabeth will save $1,080; she will be able to buy the stereo and will have $50 plus interest earned over the year left over.*
2. *David—Will pay back the $800 in one month; he will pay no interest.*
3. *Ryan—It will take Ryan 10 months to pay off his credit card debt; he will have spent $851.47 including interest. The calculations are shown below.*
4. *Caitlin—Paying only the minimum monthly payment, it will take Caitlin almost 15 years to pay her credit card debt, and she will have paid $2,034.04, which includes interest of $1,234.04.*

g. Ask the students to compare the choices of the four consumers and decide who made the best decision. *(David's choice appears to be best. David got the enjoyment of his stereo right away, and because he paid his credit card balance in full, he paid no interest. Elizabeth had to wait a year to begin enjoying her stereo, and because of inflation, her cost was $1,030. Ryan got the enjoyment of the stereo while he made his monthly payments, but his total cost was $851.47. Caitlin got to enjoy her stereo right away, but it took her about 15 years to pay for it, and the total*

Answers to 3. Ryan's Credit Card Summary

A	B	C	D	E	F	G
No. of Months	**Amount Owed (Col. G on line before)**	**Amount paid each month**	**New Balance (B – C)**	**Annual Interest @ 18% (D x .18)**	**New Monthly Interest (E ÷ 12)**	**Amount Owed (D + F)**
Month 1	$800.00	90.00	710.00	127.80	10.65	720.65
2	720.65	90.00	630.65	113.52	9.46	640.11
3	640.11	90.00	550.11	99.02	8.25	558.36
4	558.36	90.00	468.36	84.31	7.03	475.39
5	475.39	90.00	385.39	69.37	5.78	391.17
6	391.17	90.00	301.17	54.21	4.52	305.69
7	305.69	90.00	215.69	38.82	3.24	218.93
8	218.93	90.00	128.93	23.21	1.93	130.86
9	130.86	90.00	40.86	7.36	0.61	41.47
10	41.47	41.47	0.00			
	Total Paid	851.47			51.47	

cost was more than $2,000. Students may comment that Caitlin will undoubtedly want a newer and better stereo before she finished paying for the present one.)

2. Reading a Credit Card Statement

a. Explain that when people make credit card purchases, they receive a monthly credit card statement that contains information about their purchases, payments and fees.

b. Have the students examine the sample credit card statement in Exercise 12.3, *Understanding a Credit Card Statement*, in *Student Workouts.* Discuss the various components, making sure the students understand the following:

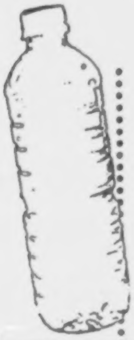
1. **Total credit line**—The maximum amount that can be charged.
2. **Total available credit**—Total credit line minus the new balance.
3. **Cash limit**—Maximum amount that can be used for a cash advance.
4. **Cash available**—Cash limit minus new balance.
5. **Amount past due**—Any amount that was not paid on time.
6. **Statement closing date**—The date of the last purchase billed on this statement.
7. **New balance**—What is now owed.
8. **Payment due date**—Date by which the minimum payment must be made.
9. **Minimum payment**—The least amount that must be paid to avoid penalty.
10. **Previous balance**—Last month's balance.
11. **Payments**—How much was paid in the last billing period.
12. **Other credits**—Any refunds posted to the account in the last billing period.
13. **Purchases**—Total amount spent in this billing cycle; this is itemized in another part of the statement.
14. **Cash advances**—Amount charged to this account for cash received.
15. **Other fees**—Late fees or other service charges.
16. **Finance charge**—Interest incurred on previous balance.
17. **Grace period**—Time when no interest is charged on new purchases if the new balance is paid in full by the payment due date.

c. Demonstrate how the new balance was computed. See Box.

Previous balance	**$345.55**
Minus payments	**−200.00**
	145.55
Plus Purchases	**207.64**
Plus late fee	**29.00**
Plus finance charge	**5.30**
New Balance	**$387.49**

d. Have the students complete Exercise 12.3 as an independent assignment. (Answers:)

1. *February 10, 2001.*
2. *December 20, 2000.*
3. *Fee for late payment.*
4. *The credit limit is $3,000.*
5. *$207.64*
6. *$200.00*
7. *$3,000.00*
8. *$2,612.00*
9. *$5.30*
10. *Because he or she did not pay the balance in full last month.*
11. *Answers will vary, but it appears that the consumer is paying a major portion of his or her credit card debt but has had difficulty in making the monthly payments on time ($29 late fee).*

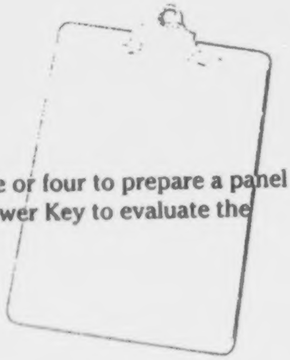


COOL DOWN

1. Have the students collect credit card applications from their families for about two weeks or until the class has approximately 20 applications. Clearly mark "VOID" on each page, and delete or obscure any personal information. Then, using a long roll of white or butcher paper, have the students construct a grid like the one below, to compare the credit cards according to the following criteria: annual fee, grace period, interest rate, credit limit.

Name of Card					
Issuing Bank					
Annual Fee					
Grace Period					
Interest Rate					
Credit Limit					

2. When the grid is complete, engage the students in a discussion of the costs and benefits of each card. Remind the students that the use of credit involves an opportunity cost in the future.



Assessment

As an assessment measure, have the students work in groups of three or four to prepare a panel discussion that addresses the use of credit. Use Assessment 12.1 Answer Key to evaluate the students' panel discussion.

Other Training Equipment

An annotated list of books and Internet resources that relate to this topic are available on our web site, **www.ncee.net**, as well as in *The Parents' Guide to Shaping Up Your Financial Future*.

Visual 12.1

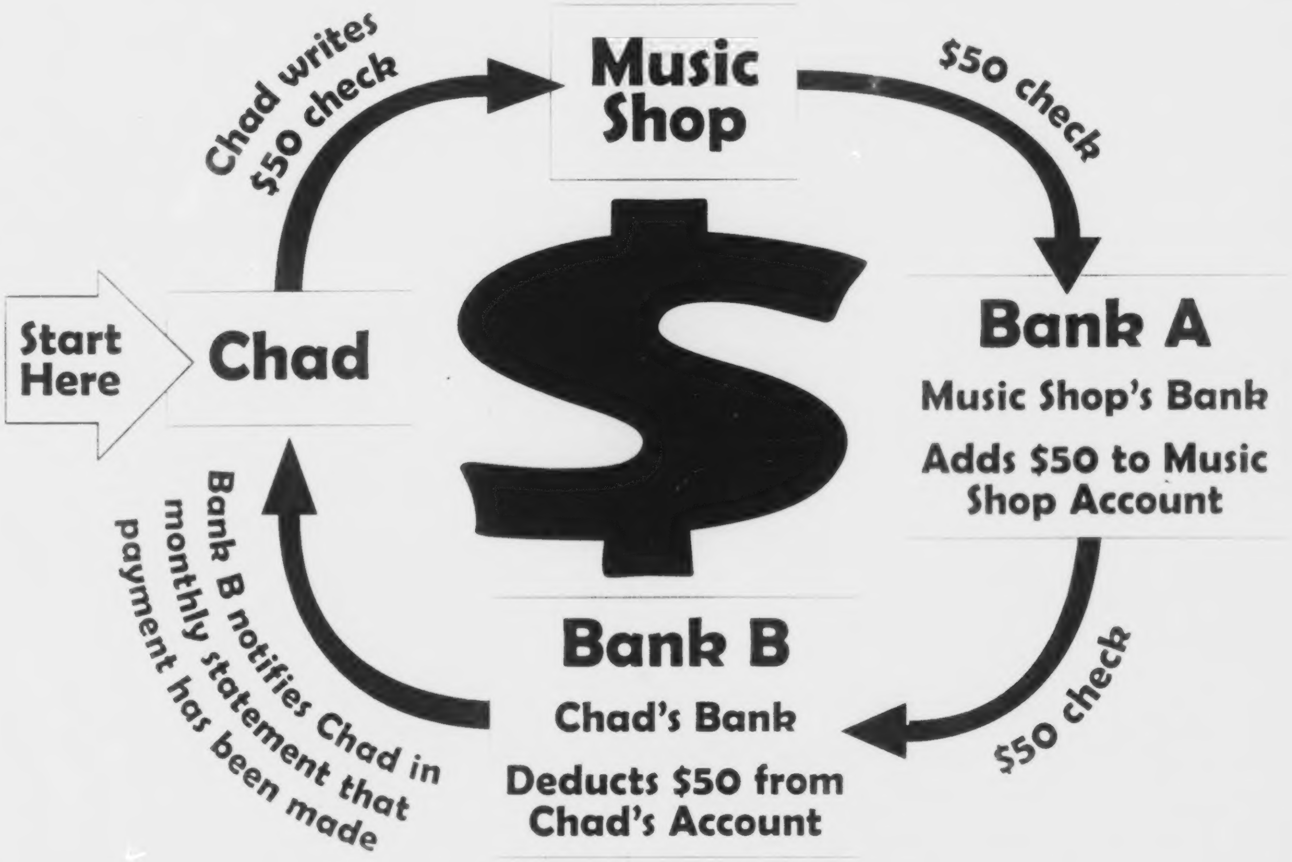
Advantages and Disadvantages of Various Methods of Payment

Payment Option	Advantages	Disadvantages

Visual 12.2

How a Check Works

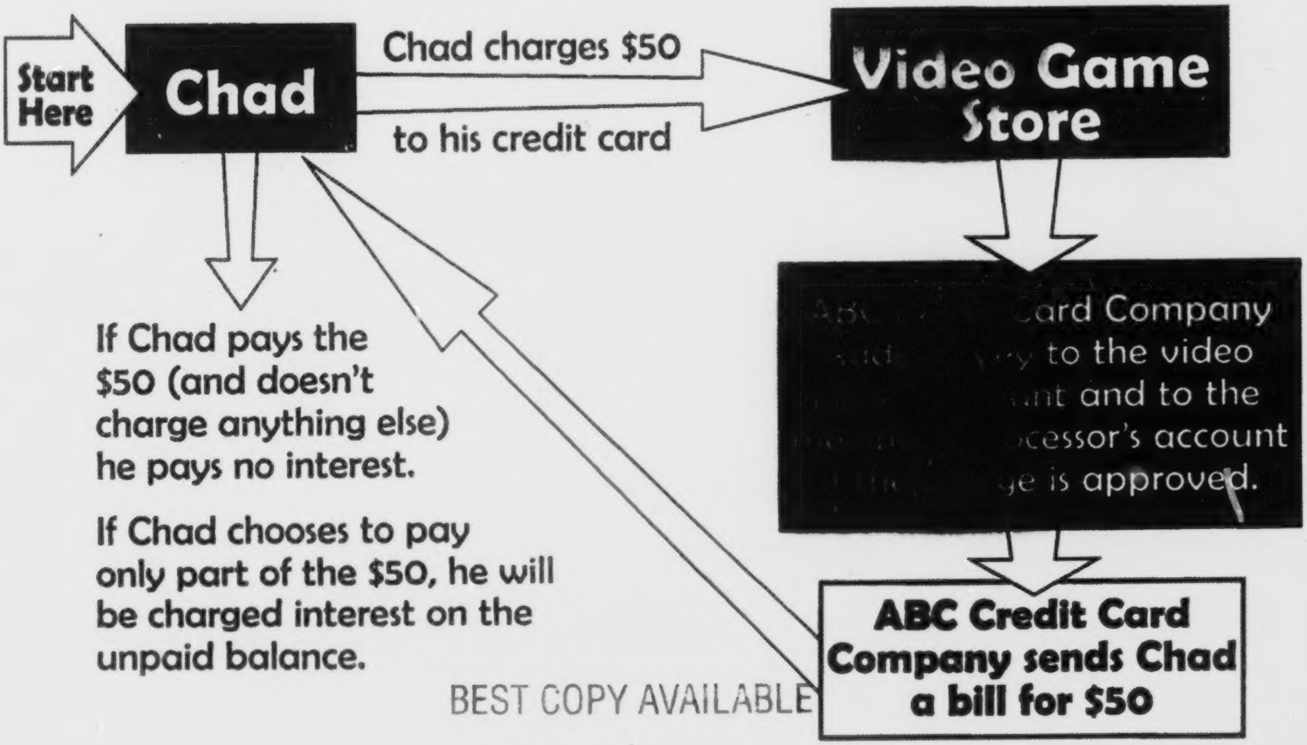
1. Chad writes a $50 check to pay for music CDs.
2. The shop owner sends Chad's check to her bank (A).
3. Bank A processes Chad's check and sends it to Chad's bank (B).
4. Bank B deducts $50 from Chad's checking account, and electronically notifies Bank A of the transaction.
5. Bank A electronically adds $50 to the shop owner's account.
6. Bank B sends Chad his cancelled check (or copy) for his records.


Start Here
Chad
Chad writes $50 check
Music Shop
$50 check
Bank A
Music Shop's Bank
Adds $50 to Music Shop Account
$50 check
Bank B
Chad's Bank
Deducts $50 from Chad's Account
Bank B notifies Chad in monthly statement that payment has been made

Visual 12.3

How a Credit Card Works

- ▲ Chad uses a credit card issued by ABC Credit Card Company to purchase video games.
- ▲ The store owner swipes Chad's credit card past a scanner.
- ▲ ABC Credit Card Company is quickly notified that Chad has requested $50 worth of credit, and if ABC Credit Card Company approves the charge, a credit sale occurs. The credit card company would add the amount of the item purchased to the store's account less a processing fee. The processing fee would go to the account of the store's merchant processor.
- ▲ ABC Credit Card Company sends Chad a statement that includes a record of his $50 purchase at the video store.
- ▲ If Chad pays the $50 before the due date, he usually won't have to pay any interest.
- ▲ If Chad chooses to pay only part of the $50, he will be charged interest on the remaining balance.


Start Here
Chad
Chad charges $50 to his credit card
Video Game Store
ABC Credit Card Company adds money to the video store's account and to the merchant processor's account if the charge is approved.
ABC Credit Card Company sends Chad a bill for $50
If Chad pays the $50 (and doesn't charge anything else) he pays no interest.
If Chad chooses to pay only part of the $50, he will be charged interest on the unpaid balance.

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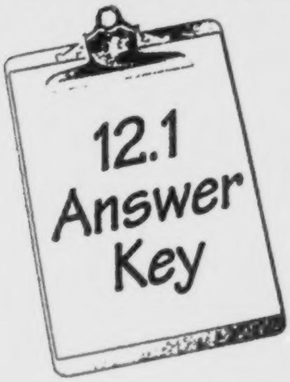
ASSESSMENT



Rubric for Evaluating Panel Discussion

Topics to be covered in Panel Discussion	Discussed thoroughly and accurately 2 points	Briefly discussed with some inaccuracies 1 point	Not discussed 0 points
Advantages of using credit			
Disadvantages of using credit			
APR			
Grace period			
Annual fees			
Transaction fees (late fees)			
Minimum payment and total cost			
Interesting statistics re credit			
Recommendations for wise credit use			
How inflation may affect decisions re use of credit			
The opportunity cost of credit			
Totals			
Grand Total of Three Columns			

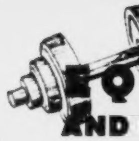
THEME 4

LESSON

13

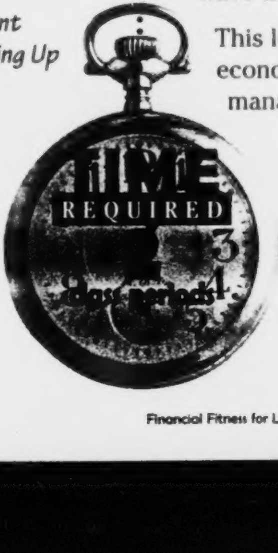
Establis Credit

Fitness Focus



EQUIPMENT AND GETTING READY!

- ✔ Introductory reading for Lesson 13 *(Shaping Up Your Financial Future Student Workouts)*
- ✔ Reading 13.1, *Character Counts—So Do Capacity and Collateral (Shaping Up Your Financial Future Student Workouts)*
- ✔ Exercise 13.1 A, B, C and D, *Completed Loan Applications and Credit Reports for Applicant 1, 2, 3, and 4 (Shaping Up Your Financial Future Student Workouts)*
- ✔ Exercise 13.1E, *Applicant Summary Sheet (Shaping Up Your Financial Future Student Workouts)*
- ✔ Assessment 13.1, *Using Your Evaluation Skills (Shaping Up Your Financial Future Student Workouts)*



LESSON DESCRIPTION AND BACKGROUND

Lenders are in business to grant loans to individuals and businesses. However, the applicant's ability to repay a loan can mean the difference between profit and loss for the lender. To reduce risk, the lender assesses the applicant's credit-worthiness by reviewing his or her character, capacity for repayment, and collateral. In this lesson, the students will work through exercises to assess the three "Cs" of several loan applications. They will discover ways they can establish a credit record, and they will learn the rights and responsibilities they have as borrowers.

This lesson is correlated with national standards for mathematics and economics as well as the national guidelines for personal financial management as shown in Tables 1 through 3 in the front of the book.

Student Objectives

At the end of this lesson, the student will be able to:

- ✔ Define the three "Cs" of credit.
- ✔ Explain borrowers' rights when obtaining credit.
- ✔ Explain borrowers' responsibilities when managing credit.
- ✔ Describe ways a young person may establish credit.

ECONOMIC AND PERSONAL FINANCE CONCEPTS

The three "Cs" of credit, character, capacity, collateral, the rights and responsibilities of borrowers

There is no specific family activity for this lesson, but there are activities in *The Parents' Guide to Shaping Up Your Financial Future* that parents may want to use with this lesson. These activities can be found in the "Raising the Bar" section for Theme 4.

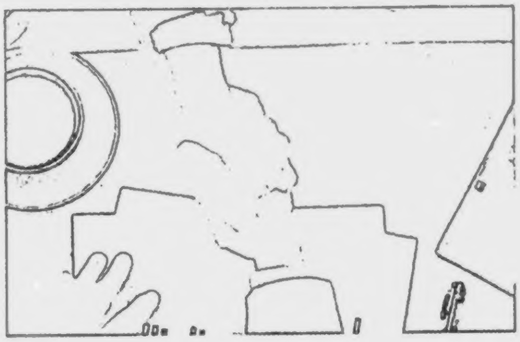
The Parents' Guide is a tool for reinforcing and extending the instruction provided in the classroom. It includes:

1. Content background in the form of frequently asked questions.
2. Interesting activities that parents can do with their son or daughter.
3. An annotated listing of books and Internet resources related to each theme.

Workout

WARM-UP

1. Have the students read the *Warm-Up, Fitness Vocabulary, Muscle Developers*, and *Showing Your Strength* for Lesson 13 in *Student Workouts*. Discuss the concepts in the readings.
2. Introduce the lesson by explaining that credit is a service. Sellers and credit-granting organizations, such as banks, provide consumers with credit. *Credit* is a loan extended to consumers.
3. Explain that those who provide credit for consumers are called *lenders*. Lenders must use caution when granting credit, so they look for certain characteristics among those who apply for credit. These characteristics are referred to as the three "Cs" of credit. Direct the students' attention to Reading 13.1, *Character Counts—So Do Capacity and Collateral* in *Student Workouts*. After the students have finished the reading, review with the students what a lender looks for when evaluating the character, capacity, and collateral of a loan applicant.



EXERCISE

1. Evaluating a Loan Application

- **a.** Break the students into six groups and assign Exercise 13.1A to two groups, Exercise 13.1B to two groups, and Exercise 13.1C to two groups.
- **b.** Point out that the applications and credit reports shown in the students' exercise are not as lengthy as an actual loan application and credit report, but that the information provided on the exercise sheets will give the students enough information to make a decision. Help the students with any terminology they may not understand.
- **c.** Refer the students to Exercise 13.1E, *Applicant Summary Sheet.* Instruct the students to use this exercise sheet to record their evaluation of the character, capacity, and collateral of the applicant. When each group has completed the task, a spokesperson from each group will present the group's assessment of the 3Cs, and whether they think a bank would approve the loan. Points that should be noted are covered in the following:

Exercise 13.1 Answers

1. THE ANDERSONS

Character: Pay rent and credit payments on time.

Capacity: Required payments for rent and credit payments are $1,089 per month (includes loan being applied for). Take home pay is $1,833. Couple should be able to afford payments.

Collateral: Good, considering their income. Have $5,000 cash.

Recommendation: Approve loan.

2. JOEY DELIGH

Character: Has problems making required payments.

Capacity: Required payments for rent and credit card payments are $2,386 per month (includes loan being applied for, excludes auto loan about to be paid in full). Net income is $2,667. Very little left for other expenses.

Collateral: Cash plus investments and equity in home is less than outstanding debt.

Recommendation: Would not approve loan unless the father meets lending criteria and is willing to co-sign loan.

3. THE RANSDIAS

Character: Good record of paying debt.

Capacity: Required payments for rent and credit payments are $4,696 per month (includes loan being applied for). Net income is $7,083. Have sufficient earnings to pay bills.

Collateral: Have more in collateral than loans.

Recommendation: Approve loan.

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2. Rights and Responsibilities

a. Ask the students what they would do if they were denied a loan. *(The students may suggest that they would just do without the item they wished to purchase with the loan, that they would seek another source for a loan, or that they may seek information as to why they were denied the loan and take action to repair their credit report. All of these answers are acceptable.)*

b. Explain that borrowers have rights and responsibilities associated with the credit they obtain. When a person's application is denied, the applicant has a right to view his or her credit report free-of-charge within 30 days of denial. If the information on the report is in error, the credit reporting agency must change the information and notify lenders about the correction. If the applicant and the credit reporting agency do not agree with information on the report, the applicant has a right to attach his or her explanation of the problem to the credit report. This explanation must also be sent to lenders. These rights for credit consumers are guaranteed by the Fair Credit Reporting Act. Explain that there are other rights, including the right to :

1. Information about the Annual Percentage Rate and the total finance charges.
2. Eligibility for credit without discrimination based on sex, religion, nationality, or marital status.
3. Contest charges on your credit card statement if you think they are wrong.
4. Protection from abuse by credit collection agencies if you are late making payments.

c. Explain that along with these rights come responsibilities. Ask students what some responsibilities may be. *(Accept answers such as repayment of the loan plus interest, making payments on time, giving honest information on credit applications.)*

3. Establishing Credit

a. Ask the students if it would be easy or difficult for them to get credit approved. *(Difficult. They [as a rule] have no income, collateral, or history.)*

b. Have the students reread the first page of Reading 13.1 and then discuss ways that a person can develop a good credit history.

COOL DOWN

Review the "Cs" of credit and the rights and responsibilities of the borrower by asking the following questions.

△ **When the lender is considering your character, what does he or she examine?** *(Your record of paying your credit debts on time; your history of managing finances, such as a checking account; your employment stability; and your residential stability.)*

△ **When the lender is considering your capacity, what characteristics does he or she examine?** *(Your income from all sources, your current debts, and your net worth [the difference between everything you own and everything you owe to others.])*

△ **Lenders want to be sure you don't just walk away from the loan without paying. They want to be sure you have collateral. What types of things would serve as collateral?** *(A car, a house, cash.)*

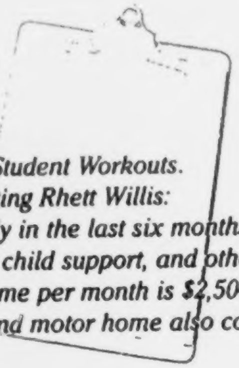
△ **If you have no credit history, what could you do to establish credit?** *(Open a checking or savings account, establish a department store account or a layaway plan, obtain a small starter loan or credit card, get a co-signer for a loan.)*

△ **What rights do you have as a borrower?** *(You cannot be discriminated against for gender or marital status; interest rates and fees must be disclosed to the borrower; you cannot be subject to abusive credit collection practices.)*

△ **What are your responsibilities as a borrower?** *(The borrower must make, at least, the minimum payment when due; the borrower agrees to pay the finance charge; the borrower agrees to pay late fees for late payments.)*

Assessment

Assign students the Assessment 13.1, *Using Your Evaluation Skills*, in *Student Workouts*. Instruct the students to evaluate the application. *(Answers for evaluating Rhett Willis: Character: Sometimes has difficulty making payments on time, especially in the last six months. Always makes payments, though. Capacity: Required payments for rent, child support, and other outstanding debts are $1,728 [includes loan being applied for]. Net income per month is $2,504. Collateral: Savings and checking are more than credit card debt. Auto and motor home also count as collateral. Would recommend.)*



Other Training Equipment

An annotated bibliography and Internet resource list are available on our web site, **www.ncee.net**, and in *The Parents' Guide to Shaping Up Your Financial Future.*

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SPENDING AND CREDIT ARE SERIOUS BUSINESS
(SPENDING AND USING CREDIT)

THEME 4

LESSON 14

Comparison Shopping

Fitness Focus

EQUIPMENT AND GETTING READY!

Make overhead transparencies of the visuals listed here.

- ✔ Visual 14.1, *Major Steps in a Purchase Decision*
- ✔ Visual 14.2, *Decision-Making Grid for DVD Player*

All the exercises, readings, and the assessment are found in *Shaping Up Your Financial Future Student Workouts*

- ✔ Introductory reading for Lesson 14
- ✔ Exercise 14.1, *A Wise Person Once Said...*
- ✔ Exercise 14.2, *Major Steps in a Purchase Decision*
- ✔ Exercise 14.3, *Poor Mrs. Amos*
- ✔ Exercise 14.4, *The Worm Has Turned*
- ✔ Reading 14.1, *Comparison Shopping*
- ✔ Reading 14.2, *Liar, Liar, Pants on Fire*
- ✔ Assessment 14.1, *Major Steps in a Purchase Decision*
- ✔ Store advertisements and newspaper ads for the following consumer products: home audio entertainment system, home computer system, living room furnishings, used car, television, roller blades with helmet or pads (teacher may substitute other consumer products.)

LESSON DESCRIPTION AND BACKGROUND

For some people, shopping is an art, and they spend hours and hours making a purchase decision. For others, the goal is to get in, buy it, and get out! Neither of these approaches is necessarily efficient. Making correct consumer choices requires a plan of action—one that neither takes too much of the consumer's time nor places the consumer in a vulnerable, misinformed position. In this lesson, the students learn a seven-step approach to making a well-informed consumption decision. They also learn to avoid consumer mistakes.

This lesson is correlated with national standards for mathematics and economics as well as the national guidelines for personal financial management as shown in Tables 1 through 3 in the front of the book.

ECONOMIC AND PERSONAL FINANCE CONCEPTS

Comparison shopping, consumer protection

Student Objectives

At the end of this lesson, the student will be able to:

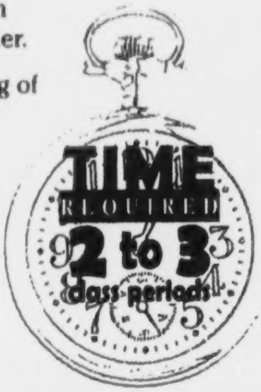
- ✔ State the seven steps in a purchase-making decision.
- ✔ Explain why each step is important.
- ✔ Make a purchase decision using the seven steps and the decision-making grid.
- ✔ Describe three illegal or deceptive practices found in the marketplace.
- ✔ Name the advantages and disadvantages of comparison shopping.
- ✔ Name at least two not-for-profit or government agencies who will help the consumer.

PARENT CONNECTION

There is no specific family activity for this lesson, but there are activities in *The Parents' Guide to Shaping Up Your Financial Future* that parents may want to use with this lesson. These activities can be found in the "Raising the Bar" section for Theme 4.

The Parents' Guide is a tool for reinforcing and extending the instruction provided in the classroom. It includes:

1. Content background in the form of frequently asked questions.
2. Interesting activities that parents can do with their son or daughter.
3. An annotated listing of books and Internet resources related to each theme.

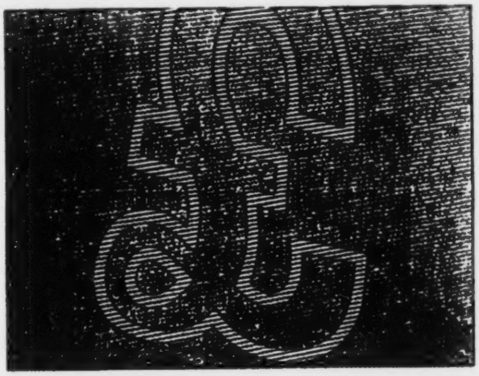


Workout

WARM-UP

1. Introduce the lesson by explaining that people often make financial mistakes through haste and ignorance. This particularly applies to purchasing decisions. Refer the students to Exercise 14.1, *A Wise Person Once Said…* in *Student Workouts* and ask them to explain the two adages. Be sure the students understand the first statement by mentioning that "pound" refers to the United Kingdom pound sterling (the U.K. currency) and not a pound in weight. Then instruct them to contrast the two statements.

2. Call on the students to give their perceptions of the two statements. Explain that the first statement refers to people who make an effort to save a penny, but do so in ways that cost them later. For example, they buy a low-quality product, and it falls apart. The statement could also refer to people who seem to be careful with small purchases but careless with large purchases. The second statement suggests that people should be careful with even their smallest purchases, because every amount of money saved is like receiving that amount in income. Together, the statements reflect the thought that it is best to be careful about all purchases, no matter what the size.



3. Discuss with students what they think it means to "live within your means." Accept student answers; then explain that this statement recommends that people take care to limit their expenditures to their amount of income. Although this is good advice, even better advice would be to suggest people "live beneath their means." Ask the students to give examples of what it may mean to live beneath one's means. *(Answers will vary, but the students might suggest that although someone might be able to afford to buy a car with a $300 per month payment, they may be better off finding a car that requires only a $250 per month payment. In that way, the buyer has $50 each month to apply to savings.)*

4. Advise the students that living beneath your means doesn't necessarily mean doing without the things you want. Staying within a budget or even well below a level of income can be accomplished by comparison shopping.

EXERCISE

1. Comparison Shopping

a. Have the students read the *Warm-Up, Fitness Vocabulary, Muscle Developers*, and *Showing Your Strength* of Lesson 14 in *Student Workouts*.

b. Define comparison shopping and ask students if any of them comparison shop for the things that they buy. Ask why they comparison shop or do not comparison shop.

c. Refer the students to Reading 14.1, *Comparison Shopping*, in *Student Workouts*. Spend some time talking about the advantages and disadvantages of comparison shopping. Have students comment on how the following statement relates to the advantages and disadvantages of comparison shopping.

> **"Comparison shopping is more important for expensive, complex products than for inexpensive, simple products."**

d. Ask how the principle of opportunity costs relates to making decisions regarding comparison shopping. *(Comparison shopping takes time and money that could be used for something else. Sometimes, comparison shopping for inexpensive things means giving up something that is worth more to the individual than the benefits gained. Many times, however, the gain from careful shopping is worth more than the time and money given up.)*

e. Inform the students that they will have an opportunity to demonstrate their ability to get value for their money. However, there is a strategy involved in successful comparison shopping of which they should become aware. Display Visual 14.1, *The Major Steps in a Purchase Decision*, and discuss the steps as follows.

▲ **Identify what you want.** This may seem obvious, but writing down exactly what you want helps you avoid the impulse to buy things on the spur of the moment or to buy something that is low on your list of priorities.

▲ **Determine how much you can spend.** You know how much money you have to cover all of your purchases. So, determine how much you can spend and stick to your decision. It's very easy to rationalize spending only a few dollars more than you intended to. However, if you do this with every item you purchase, you will eventually have to do without something you want when the money runs out.

▲ **Find out what products or services are available in your price range.** Determine the price range you can afford to pay and look at the options in that price range. Don't look at the more expensive options that are out of your price range, since you may be tempted to buy an item you cannot afford.

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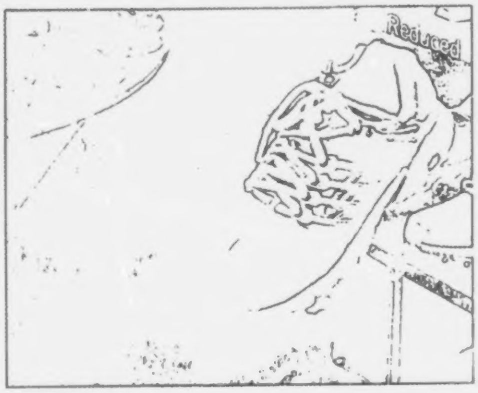

△ **Choose the features you would most like to have.** List all the features in the product you want to buy so that you can compare each of the products in your price range.

△ **Analyze the products in your price range to see if they have the features that you want.** The use of a decision-making grid helps in this analysis. Project Visual 14.2, *Decision-Making Grid for DVD Player*, which shows a completed decision-making grid for someone considering the purchase of a DVD Player. The steps in completing the grid are as follows:

1. List the alternatives along the side of the left-most column—in this case it is the various brands of the DVD Player.
2. List the features that you want along the top of the grid—these included remote control, surround audio system, and wide screen format option.
3. If a product has the feature, place a "+" in the appropriate cell. If the product does not have the feature, place a "–" in the appropriate cell.
4. Tally up the plusses to determine which would be the best choice from the analysis. In the example, the RCA DVD Player met all of the features, whereas the others did not. We also assume all the criteria have equal weight.

△ **Watch for hidden costs.** Before making a final choice, look for any hidden costs associated with any of the alternatives you are considering, especially the one that is most attractive to you. These costs might include delivery costs, special taxes or surcharges, required accessories, or club membership. High hidden costs may encourage you to select a product other than your first choice.

△ **Make your choice.** Decide on what you want, and stick to your decision. After using the good or service, determine whether it was a wise choice.

f. Invite the students to practice comparison shopping. Place the students in groups of three or four. Assign each team one of the following products or services. Have the students choose the store or newspaper ads featuring their consumer item.

△ Home audio entertainment system ($300 budget)

△ Home computer system ($1,000 budget)

△ Living room furniture for a new apartment ($500 budget)

△ Used car (($3,000 budget)

△ Television set ($200 budget)

△ Roller blades with helmet and pads ($200 budget)

g. Direct the students to use Exercise 14.2, *Major Steps in a Purchase Decision*, which includes a decision-making grid, to analyze the various options and make a decision.

h. To gather information about the product that they have been assigned, have them read the advertising that you have supplied, and/or have them comparison shop on the Internet or in the local community.

i. When the students have completed their assigned decision making, have them present their choices and how they arrived at their choices orally to the class.

2. Hindrances to Good Decision Making

a. Explain that even carefully made purchasing decisions can fail to satisfy the

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consumer. This happens for various reasons. Sometimes the consumer has not been fully informed. Sometimes the consumer can be made to feel pressured into a decision.

b. Choose three students to perform the role-play in Exercise 14.3, *Poor Mrs. Amos*, in *Student Workouts*. Instruct the students to pay particular attention to the tactics used by the salesman. When the students have completed the role-play, discuss the questions which are found on the exercise. Possible answers include:

1. *The salesman intimidated Mrs. Amos by comparing her yard to her neighbors' yards. He told her many of her peers use the lawn service. He minimized the cost of the service.*
2. *If Mrs. Amos was uncomfortable with his tactics, she should simply have hung up the phone.*
3. *Mrs. Amos continued to stay on the phone because she was polite; she did not want to appear rude; she was trusting.*

c. Explain to the students that each state has an office of the Attorney General. This office often receives complaints about illegal or unethical sales tactics. These tactics can be used against any of us.

d. Explain that the cost of a lawn service may be a relatively small item, but often the items offered by telephone sales people are large and costly. Many people have been "talked out of" very large amounts of money to buy everything from land to securities to insurance policies. This practice isn't limited to telephone sales, however. Consumers can walk into a sales office to buy cars, large appliances, or vacation homes and become just as intimidated.

e. Choose four students for the role-play Exercise 14.4, *The Worm Has Turned*, in *Student Workouts*. The four students will play the following parts: Mr. Allen, Tina Allen, the salesman, and the sales manager. The sales manager has no speaking part. Place the salesman, Mr. Allen, and Tina Allen, around a desk. Place the sales manager in a corner of the room. Instruct the sales manager and the salesman to pantomime an argument in the corner when the script calls for the salesman to meet with the sales manager.

f. When the role-play is complete, discuss the questions which were on the exercise sheet. Possible answers include:

1. *The salesman tried to ingratiate himself with Tina and her father by asking Tina if she had just received her license; he discussed his own teenagers; he kept telling Tina and her father how much he liked them; he told them he would go to the manager on their behalf.*
2. *The salesman tried to pressure Tina and her dad by indicating that there was another customer coming in to buy the car.*
3. *Answers will vary, but students will probably think Tina was going to succumb to the pressure.*
4. *Tina did the right thing. Tina and her dad had a budgeted amount for the car, and they stuck to that budget.*

g. Explain that the Allens would do well to consult the newspaper, a web site, and the *Blue Book* to determine what cars fall into their price range. Then they can go to the dealership armed with good information.

h. Warn the students that there are other types of consumer pitfalls they should avoid. Refer the students to Reading 14.2, *Liar, Liar, Pants on Fire*. Engage the students in a discussion of examples of these practices they may have observed. Share your own experiences with the students.

i. Explain that there are many federal, state, and local laws that protect consumers. There are also not-for-profit organizations consumers can consult before buying a product or when they are having problems with a product already purchased.

Tell the students that they can find web sites for consumers by searching on "consumer protection." Explain that the students can protect themselves in the following ways.

- Ask your friends about their experiences with the store or sales office.
- Before making a purchase, consult the Better Business Bureau. You can call or visit it on-line at **www.bbb.org**. The BBB keeps lists of consumer complaints against stores and sales offices. The BBB works with the consumer and the stores or sales offices to clear the complaint. They can offer you information BEFORE you buy.
- Your state's Attorney General's office accepts consumer complaints. They will work with the consumer and the store or sales office to rectify complaints. They may also prosecute unscrupulous stores and sales offices.
- The Federal Trade Commission (**www.ftc.gov**) maintains federal laws protecting consumers. This is a federal agency acting in the interest of our citizens.
- The National Consumers League maintains a web site reporting incidents of telephone and Internet fraud. This site is located at **www.fraud.org**.

COOL DOWN

Explain that the students have learned about comparison shopping as well as how to protect themselves in the marketplace. Ask the following questions.

1. The first step in a purchase decision is to identify what you want. **Why is this step so important?** *(It forces you to define exactly what you want. By defining your wants, you avoid impulse buying.)*
2. The second step in a purchase decision is to determine how much you can spend. **Why is this step so important?** *(By setting a firm budget for the item, you can avoid being lured into a larger than expected expenditure. If you spend more than your budget will allow, you will have to give up something else you wanted.)*
3. The third step in a purchase decision is to find out what products or services are available in your price range. **Why is this step so important?** *(In order to be a well-informed consumer and get exactly what you want, you have to seek out every option available to you.)*
4. The fourth step in a purchase decision is to choose the features you would like to have. **Why is this step so important?** *(This helps you make comparisons among products and increases the likelihood that you will be happy with your purchase decision.)*
5. The fifth step is to analyze the alternatives according to the features that you want, using a decision-making grid. **Why is it important to analyze the alternatives?** *(To determine which is the best choice for you according to the features you want.)*
6. The sixth step in a purchase decision is to watch for hidden costs. **Why is this step so important?** *(You don't want the final cost of your purchase to exceed your budget.)*

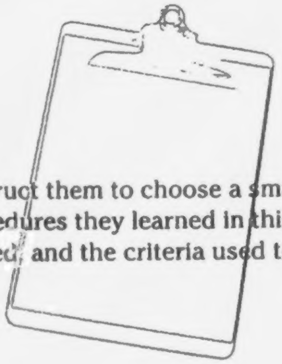
7. **How would you describe "bait and switch?"** *(This is an illegal practice where the consumer is lured into the store to purchase a bargain-priced product only to be told the product is "sold out" and then referred to a pricier item.)*

8. **What example can you give of deceptive pricing?** (Stores may offer a "special value" hoping to persuade the consumer that this is a reduced price when it actually is not.)

9. **What example can you give of deceptive advertising?** *(Answers will vary.)*

10. **If you are considering a purchase, how can you know you are dealing with a reputable store or sales office?** *(Ask other people about their experiences with the store or sales office. Consult the Better Business Bureau or other consumer advocacy organization in your community.)*

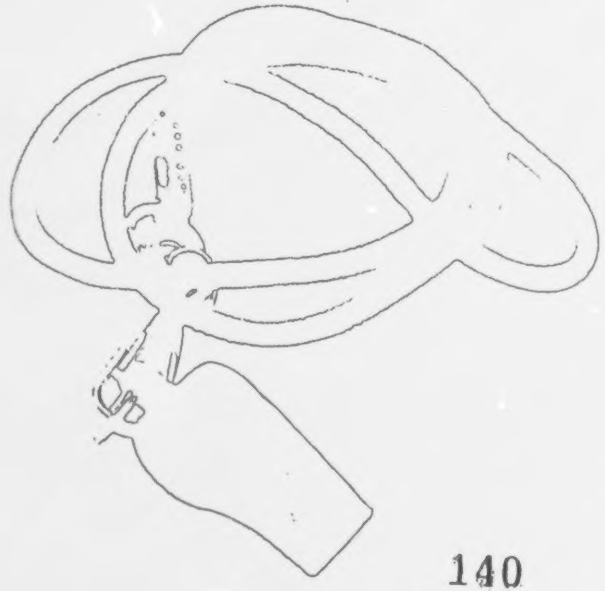
Assessment



Assign the students the Assessment 14.1 in *Student Workouts.* Instruct them to choose a small item (under $75) they would like to purchase and follow the procedures they learned in this lesson. Answers will vary according to the good or service selected, and the criteria used to evaluate the alternatives.

Other Training Equipment

An annotated bibliography and Internet resources are available on our web-site **www.ncee.net**, as well as in *The Parents' Guide to Shaping Up Your Financial Future.*



Visual 14.1

Major Steps in a Purchase Decision

1. **Identify what you want.**
   - ▲ Set your priorities.
   - ▲ Avoid impulse buying.
2. **Determine how much you can or want to spend.**
   - ▲ Develop a budget and stick to it.
3. **Find out what products or services are available in your price range.**
   - ▲ Check store ads.
   - ▲ Ask your friends.
   - ▲ Consult consumer magazines.
   - ▲ Visit on-line vendors.
4. **Choose the features you would most like to have.**
   - ▲ List specific characteristics/features the product/service must have and would be nice to have (optional).
   - ▲ List the characteristics/features you definitely do not want.
5. **Use the decision-making grid to analyze the alternatives.**
   - ▲ Use ⊕ for alternatives that have a feature, ⊖ for alternatives without the feature.
   - ▲ Tally the plusses to determine best choice.
6. **Watch for hidden costs.**
   - ▲ Check the sales tax. (Sales tax varies by community.)
   - ▲ Check for delivery costs or costs of required accessories.
7. **Make your choice.**

Visual 14.2

Decision-making Grid for a DVD Player

Features ➡ ⬇ Alternatives	Feature 1 Remote Control	Feature 2 Surround Sound System	Feature 3 Wide Screen Format Option	Total Points
Item 1 **Samsung**	+	–	–	1
Item 2 **Hitachi**	+	+	–	2
Item 3 **RCA**	+	+	+	3
Item 4 **Zenith**	+	+	–	2

[redacted]

LESSON 15

Managing Cash

Fitness Focus

EQUIPMENT AND GETTING READY!

Make overhead transparencies of the visuals listed here.

- ✔ Visual 15.1, ***Ways to Categorize Expenses***
- ✔ Visual 15.2, ***Living Within Their Means (Answer Key)***
- ✔ Introductory reading for Theme 5 and Lesson 15 ***(Shaping Up Your Financial Future Student Workouts)***
- ✔ Exercise 15.1, ***Keeping Track of Cash Flow (Shaping Up Your Financial Future Student Workouts)***
- ✔ Exercise 15.2, ***Living Within Their Means (Shaping Up Your Financial Future Student Workouts)***
- ✔ Parent Activity 8, ***The Battle of the Budget Game (The Parents' Guide to Shaping Up Your Financial Future)***
- ✔ Assessment 15.1, ***Tomorrow Never Budgets (Shaping Up Your Financial Future Student Workouts)***
- ✔ Calculators

LESSON DESCRIPTION AND BACKGROUND

Although most middle school and junior high students do not hold full-time jobs, they do have spending power. They may earn money from an allowance or a part-time job, and they have discretionary income that totals, by some estimates, billions of dollars a year.

Yet, while most teens are prolific consumers, most do not have a plan, or budget, for sensible spending and saving. This lesson will challenge the students to create a reasonable budget based on an appropriate allocation of income in a number of categories, such as clothing, entertainment, food, etc.

This lesson is correlated with national standards for mathematics and economics as well as the national guidelines for personal financial management as shown in Tables 1 through 3 in the front of the book.

ECONOMIC AND PERSONAL FINANCE CONCEPTS

Fixed expenses, variable expenses, periodic income, budget, opportunity cost, trade-off, planned expense, unplanned expense

Student Objectives

At the end of this lesson, the student will be able to:

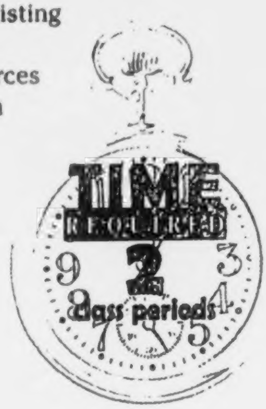
- ✔ Distinguish between fixed and variable expenses as well as planned and unplanned expenses.
- ✔ Record and analyze one's expenses.
- ✔ Develop a budget.
- ✔ Evaluate how well a budget is kept based on expenses and income for a period.

PARENT CONNECTION

Family Activity 8 in *The Parents' Guide to Shaping Up Your Financial Future* asks the students to analyze the budgets of two feuding families, the Hatfields and the McCoys. Students are also asked to make recommendations about modifying the budgets when changes occur in income or expenses. Answers to this family activity are found in *The Parents' Guide.*

The Parents' Guide is a tool for reinforcing and extending the instruction provided in the classroom. It includes:

1. Content background in the form of frequently asked questions.
2. Interesting activities that parents can do with their son or daughter.
3. An annotated listing of books and Internet resources related to each theme.



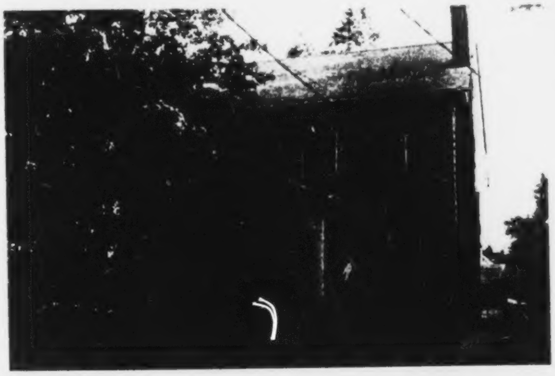
Workout

WARM-UP

1. Introduce the lesson by asking the students to name important events that families and friends celebrate together. Make a list on the board as the students suggest events. *(Answers will vary; the students will probably name birthdays, weddings, family reunions, anniversaries, graduations, holidays and religious events.)*
2. Ask the students how families plan for each event: list their ideas next to the events on the board. *(Answers will vary; the students will probably suggest decorations, food, gifts, seating arrangements, entertainment, etc.)*
3. Engage the students in a discussion of how planning is important to the success of any event.

EXERCISE

1. Explain that planning is important in money matters, too. For example:
   - ▲ **How does someone get enough money for a down payment for an automobile or home?** *(Planned saving.)*
   - ▲ **How does a person make sure there is enough money for the entire month?** *(Plan spending carefully for the whole month.)*
2. Have the students read the *Warm-Up, Fitness Vocabulary, Muscle Developers,* and *Showing Your Muscle* for Lesson 15 in *Student Workouts.* Discuss the ideas and review the new vocabulary, making sure the students understand the terminology.



3. Keeping Track of Cash Flow.

a. Explain that managing cash requires the students to examine how they earn money and how they spend it. A cash flow statement is one way of recording how money is spent—what they purchase, the amount, and whether the expense is planned or unplanned.

b. Show Visual 15.1 *Ways to Categorize Expenses*. Discuss *fixed* versus *variable expenses*, and *planned* versus *unplanned expenses*. Ask the students which expenses are more easily changed by the consumer (*variable*). Note that planned expenses include both variable and fixed expenses. Ask the students to think of some examples to add to each of the categories. *(Answers will vary.)*

c. Have the students turn to Exercise 15.1, *Keeping Track of Cash Flow*, and review the form with the students, noting the categories for food, clothing, entertainment, or other. Ask the students to keep track of their expenditures for one week on this form. Point out the sample line on the form where the expenditure is named (item/service) and the cost is listed in the *food* column. Each item is further marked as *fixed* or *variable* and whether it was a *planned* or *unplanned* purchase.

d. Emphasize the importance of recording *every* expenditure, no matter how small, and explain that when the students choose to spend money for one item, their opportunity cost is the next best alternative they could have bought instead.

e. At the end of the week, have the students total their expenditures (using calculators or paper and pencil) and record the totals for each category (food, clothing, entertainment, or other) on Exercise 15.1. Then have them total all expenditures for a *Grand Total*. Have the students recalculate the totals by adding all the planned expenses together, and all the unplanned expenses together. Students can also calculate how much they spend on fixed and variable expenses.

f. Have the students calculate the percentage of the grand total for each category. Explain how to calculate percentages. (Divide each expense by *Total Expenses* and then multiply by 100, e.g.:

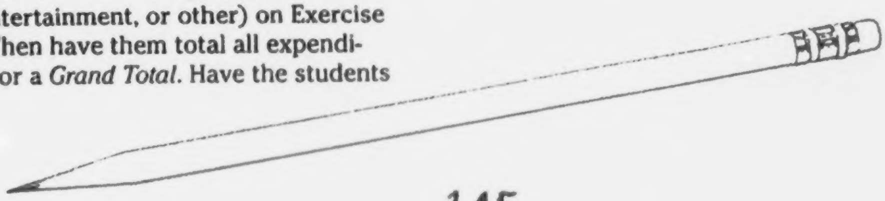
- ▲ Amount spent for *Food* ÷ *Total Expenses* × 100 = % spent for *Food*.)

g. Discuss the answers to the questions in the exercise. *(Answers will vary. Students should note that variable expenses are the easiest to decrease.)*

h. Have the students develop a budget for the next week and record their expenses as before. At the end of the week, ask the students to evaluate how well they stayed within their budgets. Discuss what changes they could make to improve their budget for the next week.

5. Living Within Their Means.

a. Explain that financial advisors often examine the income and expense statements of individuals in order to determine whether their spending habits are reasonable. Divide the class into groups of four or five students and assign each group to read one case study from Exercise 15.2. After totaling the expenses and comparing them to monthly income, have each group answer questions 1-4. Then have each group report their answers to the class. *(Calculations are shown in the answer grid on Visual 15.2. Answers to questions 1-4 will vary.)*



b. Have students complete questions 5-9 which compares the budgets to one another. Discuss the answers. (The answers are: *(1) Lauren; (2) Brian, Maria, and Suzanne; (3) Lauren; (4) $68.33. (5) Answers will vary, but students might suggest that Lauren reduce her entertainment, phone, clothes, charity or savings to come up with $500.)*

COOL DOWN

1. Divide the class into three groups and have them assume these roles:

- those who receive the same salary each week—e.g., from an allowance;
- those who receive a regular allowance plus periodic income—e.g., from occasional jobs;
- those who have only periodic income—e.g., no regular allowance, only occasional jobs such as baby sitting, mowing lawns, etc.

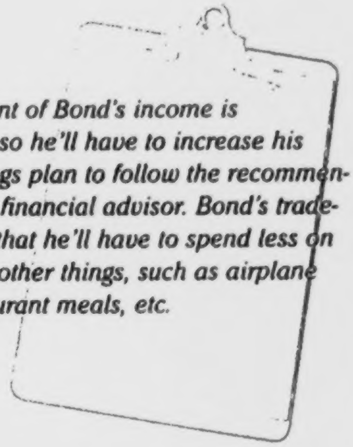
2. Each group should answer the questions below from the point of view of their group's type of worker.

- How do you estimate your income?
- How do you estimate your expenses?
- What is the hardest part about setting up your budget?
- How do fixed and variable expenses affect your budget?
- How do you handle emergencies that cause increases in expenses?
- Why do you pay yourself first?
- What budget advice would you give to people who have the same type of income sources that you do?

Assessment

Have the students complete Assessment 15.1 as an independent assignment. *(Answers are given below.)*

- *James Bond's expenses are less than his income; he has $538.00 left over. His total income is $1,974,654. His total expenses are $1;974,116.*
- *Answers may vary, but the students should respond that his opportunity cost is the next best alternative use of $175,000 that he must give up in order to buy the new plane. Perhaps he'll have to give up the maintenance of his home in Hawaii.*
- *Fifteen percent of Bond's income is $296,198.10, so he'll have to increase his current savings plan to follow the recommendation of his financial advisor. Bond's trade-off might be that he'll have to spend less on a number of other things, such as airplane tickets, restaurant meals, etc.*



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Other Training Equipment

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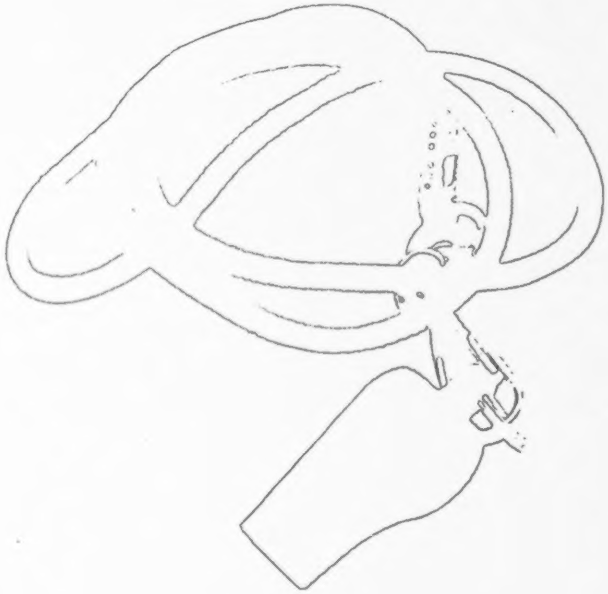

Visual 15.1

Ways to Categorize Expenses

FIXED EXPENSES

Spending that remains the same month to month.

- ▲ Rent or mortgage payment
- ▲ Car payment

VARIABLE EXPENSES

Spending that changes month to month.

- ▲ Long distance telephone bill
- ▲ Gas for the car
- ▲ Food purchased at restaurants
- ▲ Video rental

PLANNED EXPENSES

Spending you expect and for which you plan.

- ▲ Gift for your mother's birthday
- ▲ Friday night movie and ice cream
- ▲ Deposit to college savings account

UNPLANNED EXPENSES

Spending for an unexpected emergency, an urgent need, or an impulse purchase.

- ▲ Car repair for fender-bender
- ▲ Doctor visit for sprained ankle (or broken bone.)
- ▲ Fabulous sale at local music store
- ▲ Donation to collection for victims of earthquake

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Visual 15.2

Living Within Their Means Answer Grid

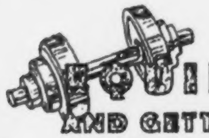
	Lauren	Brian	Maria	Suzanne	Marcus	Jeff
Annual income	$43,000	$35,000	$37,000	$130,000	$67,000	$28,950
Monthly income	$3,583.33	$2,916.67	$3,083.33	$10,833.33	$5,583.33	$2,412.50
Savings	$200	$185	$100	$1,485	$650	$200
Rent/Home	650	725	575	4,005	1,275	750
Utilities	300	240	285	550	285	65
Phone/cable/internet	150	175	225	275	95	45
Food/Groceries	225	207	375	275	275	95
Car payment	550	365	125	750	350	155
Insurance	156	148	220	625	215	115
Transportation	77	88	47	375	85	115
Charity	80	89	20	550	95	55
Clothes	55	115	185	225	150	40
Loan payments	450	307	607	750	1385	595
Entertainment	200	150	165	450	285	45
Services	150	125	75	365	95	60
Other	166	185	150	255	275	75
Total Monthly Expense	$3,409	$3,104	$3,154	$10,935	$5,515	$2,410
Amount left over	$174.33	–$187.33 Over budget	–$70.67 Over budget	–$101.67 Over budget	$68.33	$2.50

THEME 5

LESSON 16

Choosing and Using a Checking Account

Fitness Focus



EQUIPMENT AND GETTING READY!

Make overhead transparencies of the visuals listed here.

- ✔ Visual 16.1, *A Hard Lesson for Mr. Smith*
- ✔ Visual 16.2, *Write a Check*
- ✔ Visual 16.3, *Electronic Banking*
- ✔ Visual 16.4, *Check Register*
- ✔ Visual 16.5, *Check Register Answer Sheet*

All the exercises, readings, and assessment are found in *Shaping Up Your Financial Future Student Workouts.*

- ✔ Introductory reading for Lesson 16
- ✔ Exercise 16.1, *Design a Check*
- ✔ Exercise 16.2, *Using a Checking Account*
- ✔ Reading 16.1, *About Checking Accounts*
- ✔ Reading 16.2, *Opening a Checking Account*
- ✔ Reading 16.3, *Ten Tips for ATM Safety*
- ✔ Assessment 16.1, *What's Great About Our Checking Accounts!*

LESSON DESCRIPTION AND BACKGROUND

Checking accounts offer a menu of features along with a menu of costs. In this lesson, the students learn the fundamentals of maintaining a checking account by examining electronic banking methods, check writing, and entries in a check register. The students examine the features and costs of a checking account to prepare them for the time when they acquire checking accounts of their own.

This lesson is correlated with national standards for mathematics and economics as well as the national guidelines for personal financial management as shown in Tables 1 through 3 in the front of the book.

ECONOMIC AND PERSONAL FINANCE CONCEPTS

Credit union, savings and loan, checking account, ATM card, debit card, checkbook register

Student Objectives

At the end of this lesson, the student will be able to:

- ✔ Identify major features, benefits, and costs of checking accounts.
- ✔ Explain the responsibilities of having a checking account.
- ✔ Write a check correctly.
- ✔ Describe ATM cards, debit cards, direct deposit, and automatic withdrawals.
- ✔ Identify safety precautions when using ATM machines.

PARENT CONNECTION

There is no specific family activity for this lesson, but there are activities in *The Parents' Guide to Shaping Up Your Financial Future* that parents may want to use with this lesson. These activities can be found in the "Raising the Bar" section for Theme 5.'

The Parents' Guide is a tool for reinforcing and extending the instruction provided in the classroom. It includes:

1. Content background in the form of frequently asked questions.
2. Interesting activities that parents can do with their son or daughter.
3. An annotated listing of books and Internet resources related to each theme.

TIME
REQUIRED
2
class periods

Workout

WARM-UP

1. Introduce the lesson by displaying Visual 16.1, *A Hard Lesson for Mr. Smith*. Ask the students if they know the meaning of "overdrawn." Explain that a checking account becomes overdrawn when the owner of the account has written checks for amounts greater than the amount of money available in the checking account.

2. Explain that the bank may have paid Mr. Smith's checks even though he was overdrawn. However, that is unlikely. The likely scenario is that the checks Mr. Smith wrote "bounced." Ask the students what it means to "bounce a check." A "bounced" check is called an *overdraft*. It is a check written for an amount greater than the amount of money in the checking account, and the bank refuses to pay it, and "bounces" it back to the person who tried to cash it. This practice should be strictly avoided. Overdrafts are expensive. The bank will charge a fee, as high as $25.00 or so, for each overdraft you write. The business to which you wrote the check is also likely to charge a fee. Another very serious consequence is that a bounced check harms your reputation with the person or business you meant to pay.

3. Explain that in this lesson the students will learn the fundamentals of maintaining a checking account. They will research the different types of accounts, the benefits and costs of each account, and the different types of institutions that offer checking accounts.

4. Point out that checking accounts are useful financial tools. A checking account is not usually important to a middle school student, but as soon as he or she gets a job, a checking account is nearly essential. The students should know how to maintain a checking account before they acquire one. This can help them avoid many embarrassing consequences.

EXERCISE

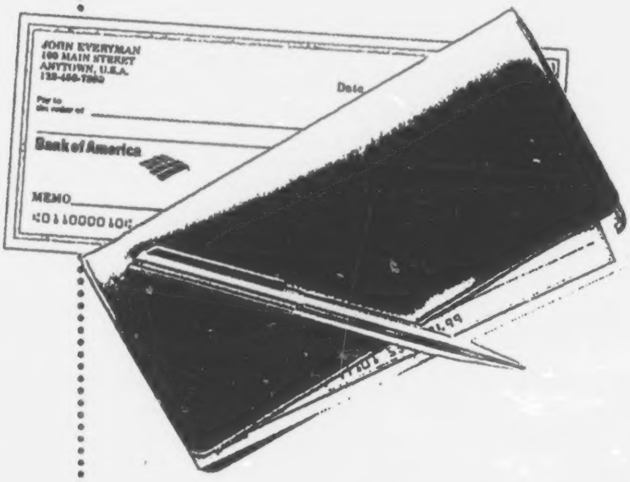
1. All About Checks

a. Ask the students if they have ever received a check as a gift or if they have ever seen a check. If so, they will likely know what information it contains. Explain that a check is a promise of payment from the check writer to the check receiver. Refer the students to Exercise 16.1, *Design a Check*. Instruct them to reproduce a check in the space provided. When the students have completed the task, display Visual 16.2, *Write a Check*. Instruct the students to compare their version with a real check.

b. Discuss each check symbol and entry as follows:

▲ The upper-left corner includes the name and address of the check writer. Often people have their phone number printed on the check for convenience.

▲ The upper-right corner contains the check number. Check numbers are a way of keeping track of the checks you write.



▲ The date line simply shows the date when the check was written. Be sure you have the money in your account to cover the check on the day the check is written. It is unwise to write a check based on a deposit that will take place within the next few days.

▲ The "Pay to the Order" line is for the name of the person or business to be paid. This person or business is entitled to make a claim against your checking account for the dollar amount stated on the check.

▲ The "Pay to the Order" line is followed by a box in which to write the amount of the check in numbers. Write the numbers as close as possible to the dollar sign so that no one can squeeze in additional numbers.

▲ The next line is used to write out the amount of the check in words. This line must agree with the numeric entry above. Always draw a line after having written the amount. In this way, no one can add more to the line.

▲ The name of the bank or financial institution follows under this line. This allows the person to whom the check is written to know where the check writer's account is held.

▲ The "Memo" line allows the checkwriter to make a note as to the purpose of the check. The checkwriter can write any notation here. For instance, if the check is being written to the telephone company, this line can be used to write the telephone account number. If the check is being written for cousin Tommy's birthday, the "Memo" line can include a birthday message for Tommy.

▲ The signature line follows the "Memo" line. The signature of the account holder shows that he or she wants the payment made from his or her checking account. It can be compared with the signature card to verify that the account holder wrote the check.

▲ The numbers at the bottom of the check include information about the bank, the checking account number, and the check number. These numbers are scanned when the check is processed to insure accuracy.

c. Refer the students to Reading 16.1, *About Checking Accounts*. When they have completed the reading, ask the following questions:

1. **Why would writing checks for payments be safer and more useful than using cash?** *(Cash can be lost or stolen; you can't prove you've made a payment in cash without having a receipt; writing checks helps you keep track of your expenditures; some checking accounts earn interest.)*
2. **What types of costs could you incur by using a checking account?** *(Fees for printed checks, fees for overdrafts [checks written on an overdrawn account], monthly service charges, or a charge for each check you write.)*

d. Refer the students to Reading 16.2, *Opening a Checking Account.* Ask the following questions:

What would be your first step in acquiring a checking account? *(Answers will vary, but the students will likely respond that they would go to the bank. However, as will be explained in the reading, the first step is to choose the institution based on the checking account features offered.)*

Why is completion of a signature card important? *(The signature card can be compared with the signature on the check to assure its authenticity.)*

e. Explain that three types of institutions provide most checking accounts in a community. These include commercial banks, savings and loans, and credit unions. Accounts in these institutions are generally insured through the United States government. Have students identify institutions in the community that offer checking accounts.

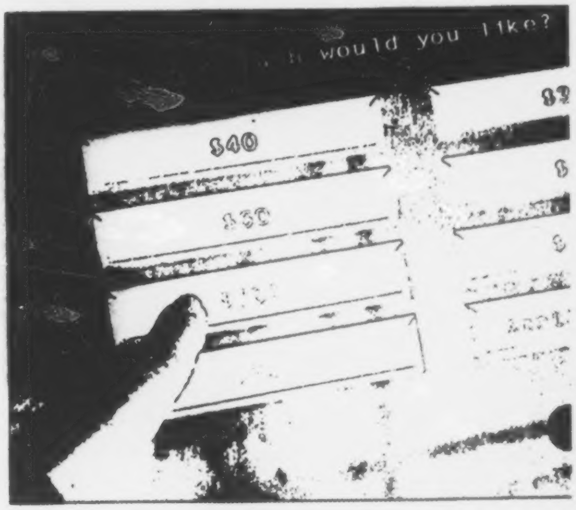
f. Explain that banks, savings and loans, and credit unions offer different types of checking accounts with different types of features. One feature of some checking accounts, free checking, is often advertised on bank banners and TV ads. Free checking or other desirable services may require a substantial balance in the account. Some checking accounts may also offer overdraft protection or payment of interest. Generally, banks, credit unions, and savings institutions offer different checking account packages so that customers can establish accounts that best suit their lifestyles.

g. Refer students back to Reading 16.1, *About Checking Accounts.* Focusing on the features and costs of checking accounts, assign the students to call a bank, credit union, or savings institution in their community and ask about the types of checking accounts they offer. Have them seek answers to the questions posed in the reading. Remind the students that these institutions are not open in the evening, so the calls will have to take place right after school. Explain that they will make a brief report on their findings.

2. Electronic and Online Access to Checking Accounts

a. Point out that writing checks and completing paper deposit tickets are not the only way to access a checking account. Ask the students the following questions:

What is an ATM? *(The students will likely respond that it is a machine located in malls, airports, and banks where customers can withdraw money from their account. While this is true, explain that ATM stands for Automated Teller Machine, and it has several other functions, such as allowing*



the account holder to transfer money from one account to another, to check an account balance, or to deposit money.)

What is an ATM card? *(It is an identification card that allows the holder to withdraw money from his or her account at an ATM. A personal identification number [PIN], along with the card, is required for transactions.)*

b. Explain that the use of an ATM is only one of several electronic banking services. Display Visual 16.3, *Electronic Banking*. Explain each of the electronic methods as follows:

1. ATMs are the electronic service with which students may be most familiar. Explain that these machines can be used at all hours of the day or night. Customers may make deposits to or withdrawals from their accounts, verify their account balances, and transfer money from one account to another. Customers may also use other banks' ATMs, but they should be careful in doing this. Other banks often charge a fee for the use of their machine. Customers should be cautious using ATMs for another reason. Crimes of theft and fraud associated with the use of ATMs have been reported. Use care when you withdraw or deposit cash at an ATM. Refer the students to Reading 16.3, *Ten Tips for ATM Safety*, for additional safety precautions. Instruct the students to share this information with their parents.
2. The debit card is another type of electronic payment method. The card for the ATM is many times the same one used as a debit card. This card is used much like a credit card. The customer makes a purchase, his or her debit card is scanned, the customer inserts the PIN, and a sales slip is given to the customer for signature. Although the debit card is used like a credit card, there is one huge difference. A credit card is a loan the customer takes to pay for the purchase later. A debit card immediately transfers money from your checking account to the merchant's account. Using a debit card is simple, fast, and convenient. However, treat it like cash; if someone gets possession of your card, he or she may be able to make purchases.
3. Ask the students if they've ever watched their parents sit down to pay the bills. Bills for services, such as the telephone, cable TV, and electricity come every month. These transactions can't be handled by debit cards or ATMs, so consumers must write out check after check, pay postage, and make a trip to the post office. However, there is an electronic answer to this problem. Bank customers can use online banking for paying these bills. Online banking is done various ways. One way is to have the financial institution where you have your account pay your regularly scheduled bills electronically from your account. Monthly rent for housing, electric bills, and telephone bills are examples of bills which would be handled by the financial institution. Another form of online banking is where the consumer can make payments electronically. With this type of online banking, the customer can transfer funds from one account to another, pay bills, and see his or her bank statement. A PIN is needed to access the account; an Internet capability is also required.
4. Money that bank customers receive regularly by check can be electronically transferred to the customers' accounts. This service is called direct deposit. People often use this service to deposit their paychecks. Instead of being given a check, the worker gets a confirmation that his or her money has been deposited. There are several advantages to using direct deposits. They save trips to the bank to cash checks; they eliminate the possibility of losing the checks; and the money usually gets into the account sooner.

5. There is one very important pitfall to avoid when using electronic banking services. Customers must always remember to write the transaction in their check register. Display Visual 16.4, *Check Register.* Explain that a account holder can keep a running balance of a checking account in the check register. Each time a check is written, the account holder can simply write in the date, check number, to whom the check was written, and the amount of the check. The account holder deducts the amount of the check from the previous balance. This is very convenient because the pad of checks and the check register are contained in the same book. However, with electronic transactions, the check register may not be handy when the transaction occurs. The account holder must remember to note the automatic deposits and withdrawals.

3. Using a Checkbook

a. Refer the students to Exercise 16.2, *Using a Checking Account.* This activity gives the students practice in keeping a checkbook register. The balance at the end of the transaction list is $97.13. When the students complete the exercise, display Visual 16.5, *Answer Sheet* so that the students can check their work. Make sure the students are following the rules for writing checks presented earlier.

b. Explain that if there are errors in the check register, the account holder will find them if he or she is careful to balance the checking account each month. The bank sends a statement each month. The statement shows the balance in the account at the beginning of the monthly cycle. Then it lists each deposit and each check that was sent to the bank for payment. Finally, it provides an ending balance. It is very easy to reconcile a check register with the statement by following the directions on the back of the statement, and it is very important to do so soon after receiving the statement. A bank reconciliation should be completed, generally every month, to make sure that the balance in your account equals the bank's balance for your account. Otherwise, one can easily overdraw an account.

COOL DOWN

1. Ask the students if they think there will come a time when people stop using cash altogether.

   Explain that a cashless society has been predicted for a long time; however, most people like to have a little cash in their pockets for emergencies or small purchases. Ask the students what it would take to create a cashless society: what types of banking services would bring it to reality? *(The students should describe ATMs, debit cards, direct deposit, automatic withdrawals, and online banking.)*

2. As a review ask the students to read the *Warm-Up, Fitness Vocabulary, Muscle Developers* and *Showing Your Strength* in *Student Workouts.*

After reading, ask the students the following questions:

Why should one shop for a checking account? *(Because there are many checking account plans that vary in costs and services. One should find the checking account that best meets his or her needs and wants.)*

Why is secrecy important for your PIN and your ATM and debit card? *(Your PIN should never be given to anyone or kept in the same place as your debit or ATM card. Someone who learns your PIN can use your card to access your checking account without your knowledge or permission.)*

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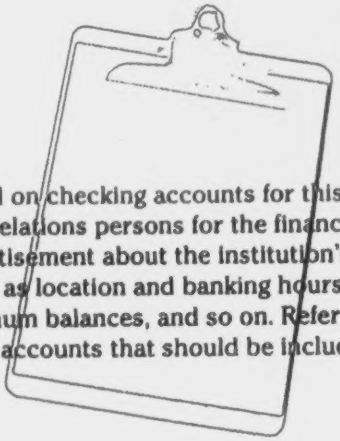
Why is it important to keep good records when you have a checking account? *(So you know how much money you have in the account; to avoid overdrawing the account; to develop a good reputation (character); or to avoid maintaining too much money in a non-interest account. Money not needed in the checking account can be moved to a savings account that pays interest.)*

Why do financial institutions charge fees for a person to have a checking account? *(It costs the financial institutions to process checks and deposits.)*

Assessment

Instruct the students to use the information they gathered on checking accounts for this assignment. Tell the students that they will act as public relations persons for the financial institution; instruct them to write a public relations advertisement about the institution's services. They should include the institution's features, such as location and banking hours, and the features of the account, such as per-check fees, minimum balances, and so on. Refer them to Assessment 16.1 for the features and costs of checking accounts that should be included in their advertisement.



Other Training Equipment

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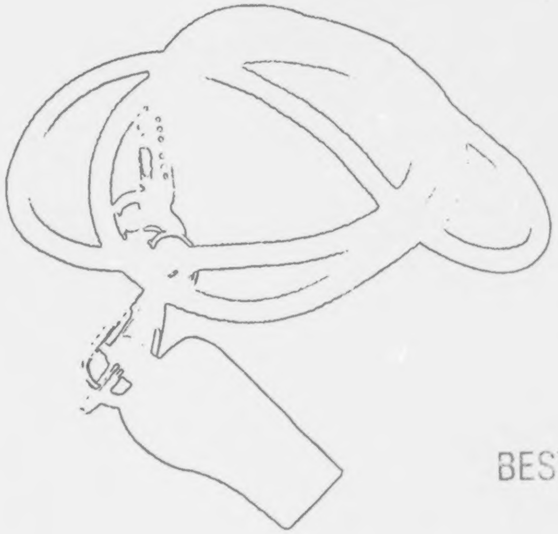

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Visual 16.1

A Hard Lesson for Mr. Smith

Banker:

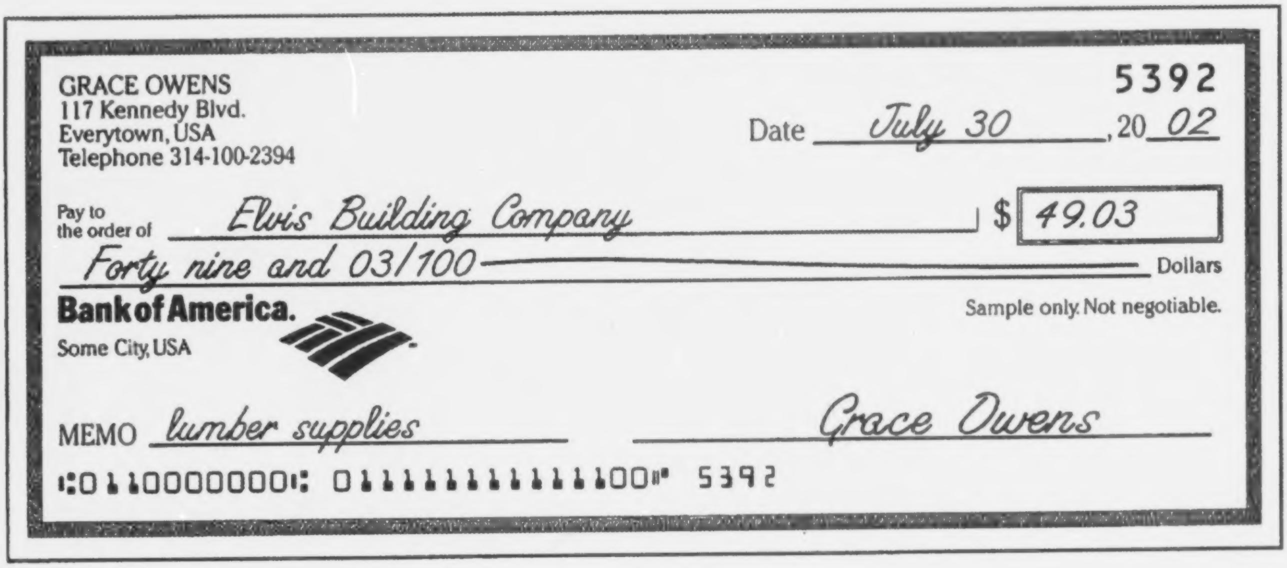
Mr. Smith, your checking account is overdrawn.

Mr. Smith:

How can that be? I still have checks!

Visual 16.2

Write a Check



GRACE OWENS
117 Kennedy Blvd.
Everytown, USA
Telephone 314-100-2394

5392

Date *July 30*, 20*02*

Pay to the order of *Elvis Building Company* $ *49.03*

Forty nine and 03/100 Dollars

Bank of America.
Some City, USA

Sample only. Not negotiable.

MEMO *lumber supplies*

Grace Owens

⑆0110000000⑆ 0111111111111100⑈ 5392

Visual 16.3

Electronic Banking

Electronic banking may sound impersonal, but it's actually a fast and easy way to use banking services.

You can:

▲ make deposits
▲ make withdrawals (get cash)
▲ pay loans
▲ pay bills
▲ transfer money between accounts
▲ pay for purchases at the point of sale
▲ check your account status

Electronic banking includes:

▲ Automated Teller Machines (ATMs)
▲ Debit cards
▲ Automatic withdrawals/transfers
▲ Direct deposits
▲ Online banking services

Visual 16.4

Check Register

PLEASE BE SURE TO DEDUCT CHARGES THAT AFFECT YOUR ACCOUNT

CHECK #	DATE	TRANSACTION DESCRIPTION	WITHDRAWAL/ SUBTRACTIONS		✓ T	FEE IF ANY	DEPOSIT/ ADDITIONS		BALANCE	
									145	52

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Visual 16.5

Check Register Answer Sheet

PLEASE BE SURE TO DEDUCT CHARGES THAT AFFECT YOUR ACCOUNT

CHECK #	DATE	TRANSACTION DESCRIPTION	WITHDRAWAL/ SUBTRACTIONS		✓ T	FEE IF ANY	DEPOSIT/ ADDITIONS		BALANCE	
									145	52
8452	9/4	Gibson's Record Shop new tape	9	88					-9 135	88 64
X	9/8	Deposit					66	95	+66 202	95 59
8453	9/11	Grayson's Service Station oil change	24	50					-24 178	50 09
8454	9/15	Acme Jewelers deposit on class ring	15	00					-15 163	00 09
ATM	9/19	Cash withdrawal	40	00					-40 123	00 09
X	9/22	Deposit					63	88	+63 186	88 97
8455	9/23	Lee Johnson loan	5	00					-5 181	00 97
8456	9/26	American Publishing	13	75					-13 168	75 22
8457	9/27	Neighbor's Store mom's birthday gift	28	63					-28 139	63 59
X	9/29	Deposit					10	00	+10 149	00 59
auto	9/30	Automatic withdrawal auto loan	47	56					-47 102	56 03
svc ch	10/1	Service Charge	4	90					-4 97	90 13

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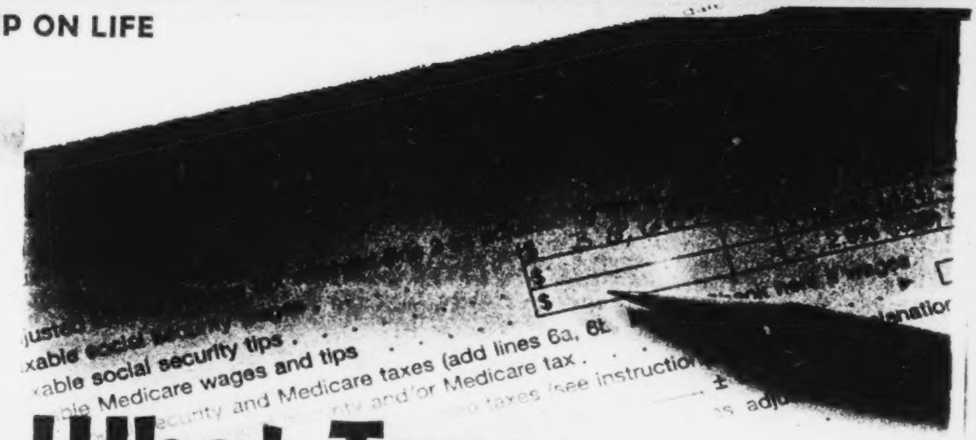
THEME 5

LESSON

17


xable social security tips
able social security wages and tips
ble Medicare wages and tips
security and Medicare taxes (add lines 6a, 6b
curity and/or Medicare tax
taxes (see instructions
$
$
$

What Taxes Affect You?

Fitness Focus

EQUIPMENT AND GETTING READY!

Make overhead transparencies of the visuals listed here.

- ✔ Visual 17.1, *Tax Troubles*
- ✔ Visual 17.2, *Local Government Provides…*
- ✔ Visual 17.3, *State Government Provides…*
- ✔ Visual 17.4, *Federal Government Provides…*
- ✔ Visual 17.5, *Who Got a "Pizza" My Paycheck?*
- ✔ Introductory reading for Lesson 17 *(Shaping Up Your Financial Future Student Workouts)*
- ✔ Reading 17.1, *Is This a Road or a Parking Lot? (Shaping Up Your Financial Future Student Workouts)*
- ✔ Assessment 17.1, *Where Did the Money Go? (Shaping Up Your Financial Future Student Workouts)*
- ✔ Supply of sales receipts with sales tax included.

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LESSON DESCRIPTION AND BACKGROUND

In a perfect world, we would be provided roads, schools, police, parks, and other public goods and services without the burden of taxation. However, in most cases, government must offer these goods and services, because private industry will not provide them.

Pure public goods and services share two characteristics: *non-exclusion* and *shared consumption*. Non-exclusion refers to the inability to keep people from consuming or benefiting from the good. For instance, it would be impossible to keep people from benefiting from streets and highways. Shared consumption refers to a good or service in which an additional consumer can use the good without additional cost. For example, although the population of the U.S. has grown, our borders have not. Therefore, the costs associated with providing a national defense do not increase just because the number of people to defend increases.

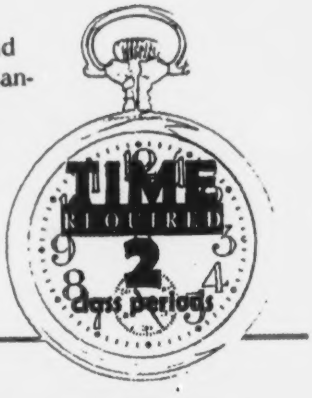
In this lesson, the students observe that they already pay taxes in the form of sales tax, and they will soon be obligated to pay income tax. Students also gain understanding of the goods and services paid for by taxes.

Student Objectives

At the end of this lesson, the student will be able to:

- ✔ Define and explain income, property, and sales taxes.
- ✔ Explain what goods and services government provides at the local, state, and federal levels.
- ✔ Explain why government provides some goods and services, but not others.

This lesson is correlated with national standards for mathematics and economics as well as the national guidelines for personal financial management as shown in Tables 1 through 3 in the front of the book.



ECONOMIC AND PERSONAL FINANCE CONCEPTS

Income tax, sales tax, property tax

PARENT CONNECTION

There is no specific family activity for this lesson, but there are activities in *The Parents' Guide to Shaping Up Your Financial Future* that parents may want to use with this lesson. These activities can be found in the "Raising the Bar" section for Theme 5.

The Parents' Guide is a tool for reinforcing and extending the instruction provided in the classroom. It includes:

1. Content background in the form of frequently asked questions.
2. Interesting activities that parents can do with their son or daughter.
3. An annotated listing of books and Internet resources related to each theme.

Workout

WARM-UP

1. Introduce the lesson by displaying Visual 17.1, *Tax Troubles*. Explain that these terms refer to organizations that can be found on the Internet. Ask the students if they have ever heard of any of these organizations and if they can draw any inferences about what these organizations sponsor. They most likely have not heard of these groups, but they might infer that these groups sponsor movements toward tax reform.
2. Point out that many people complain about paying taxes. The organizations listed on the visual are just a few of dozens, maybe hundreds, of web sites advocating everything from paying no taxes to tax reform. Some complaints focus on the level of taxes, while others are concerned with the methods used for taxation. Ask the students what types of complaints or reform ideas they have heard. *(Most students will recognize that people complain that they pay too much in taxes. The informed students may know of suggestions to adopt a proportional income tax or national sales tax as an alternative to our present system.)*
3. Explain that taxation has been around almost as long as civilization. Early emperors and kings demanded tribute from their subjects. The money collected supported the empires and the kingdoms and provided limited defense. Even the Bible refers to taxes in the quotation, "Render unto Caesar what is Caesar's." Define *taxes* as required payments of money to the government. Write the definition on the board.
4. Ask the students what type of taxes they pay. The sales tax would be a tax they all pay unless the state where they live doesn't have a sales tax. Define *sales tax* as a tax paid on items purchased by consumers.

Provide each student with receipts for purchases made locally. Instruct the students to observe the sales tax charged on the receipt. Explain that the sales tax is a percentage of the sale price. For instance, a community may charge four percent sales tax and the state in which that community is located might charge a two percent sales tax, meaning that for every dollar a consumer spends, he or she must pay six cents in tax. Instruct the students to examine the receipts provided. In some cases, the sales tax percentage will be printed on the receipt. Have a student report the percentage shown on a receipt. If none of the receipts indicate the percentage amount, instruct the students to calculate the percentage charged.

5. Explain that, in addition to sales tax, communities assess *property taxes*. This is a tax on real estate and, sometimes, on personal property such as cars and boats. Some cities and most states have instituted an *income tax*. The federal government also assesses an income tax. This is a tax in which the percentage of tax you pay is based on your level of income.

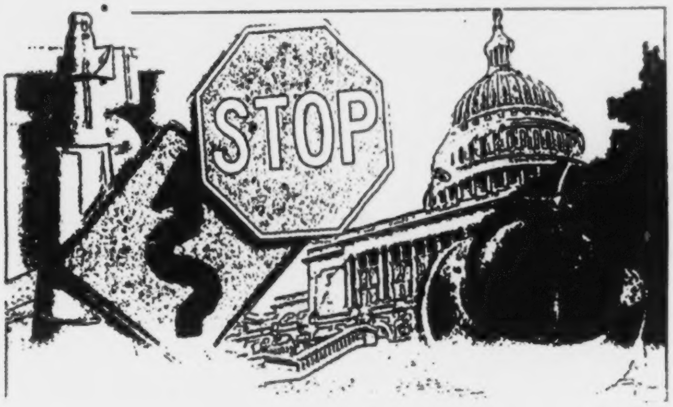
6. Have the students read the *Warm-Up, Fitness Vocabulary, Muscle Developers*, and *Showing Your Strength* of Lesson 17 in *Student Workouts*.

EXERCISE

1. Refer the students to Reading 17.1, *Is This a Road or a Parking Lot?* in *Student Workouts*. Ask the students what their answer is to how the new road will most likely be financed. (*Taxes.*) Ask the students why other methods suggested in the reading would not work. (*Road construction would not be profitable for private industry to provide; voluntary contributions are likely to fall short of the needed money because not everyone would be willing to contribute.*) Ask them how their community pays for new roads. (*Taxes.*)

   a. Ask if they can identify any new road construction in their area. Explain that government pays for most roads. Some streets in the community are constructed and maintained by the local community government. Some larger roads are constructed and maintained by the county or state government. The federal government provides interstate highways.

   b. Explain that roads are just one example of government-provided goods and services. Ask the students to brainstorm other goods and services in their community, state, and country that are publicly owned and maintained. Record their answers on the board. (*Answers will vary but could include public libraries, parks, museums, public health clinics or hospitals, police and fire protection, schools, water, sewage, and garbage services. The students are not likely to know which level of government provides the goods and services they have named.*)



2. Explain that governments provide goods and services that are not likely to be provided in any other way. Governments get the money to provide goods and services by requiring citizens to pay taxes.

   a. Ask the students to speculate as to which of the goods and services listed are provided by local government. Then display the Visual 17.2, *Local Government Provides*... Help the students recognize that the number of goods and services provided by local government varies from place to place, but the items on the list are typical of the goods and services provided by local government. Ask the following questions:

- ▲ **What goods and services are provided within our school?** *(Answers will vary, but guide the students to compile a list similar to the following: teachers, custodial workers, secretaries, books, classrooms, lighting, heat, art supplies, etc.)*
- ▲ **What parks and recreational programs does our city (or county) provide?** *(Answers will vary, but guide the students to name all local parks, skating rinks, pools, ball fields, etc.)*
- ▲ **What is needed by our law enforcement programs to perform its responsibilities?** *(Answers will vary, but guide the students to consider police, police cars, police bicycles or horses, courthouses, judges, court clerks, jails, guards, safety and educational programs, such as D.A.R.E., etc.)*

b. Ask the students to suggest goods and services provided by state government. Display Visual 17.3, *State Government Provides…* Begin a discussion of the items on the list by posing the following questions:

- ▲ **Is anyone acquainted with someone who is currently attending a state college/university? Who is it? Which university does he or she attend?** *(Answers will vary.)*
- ▲ **Does your acquaintance (relative) have to pay any money to attend the university?** *(The students may or may not be aware that, in most cases, the students are required to pay some amount of money toward their educational costs. Explain that the price the students pay is far lower than the actual cost of the education because the state pays for a good portion of the cost of the students' education.)*
- ▲ **What state parks have you visited?** *(Answers will vary.)* **What types of services are provided there?** *(Again, answers will vary, but many state parks offer camping grounds, picnic areas, covered shelters, security, and nature programs.)*

c. Ask the students to suggest goods and services provided by the federal government. Display Visual 17.4, *Federal Government Provides…* Explain that some of the federal government's expenditures buy goods and services for citizens. Other federal government expenditures are payments made to individuals to help them through rough times. These payments are called transfer payments. Discuss some of the goods and services and transfer payments on the list by asking the following questions:

- ▲ **What types of goods and services are included in our national defense system?** *(Lead the students to include in the discussion some large-ticket items, such as wages for military personnel, fighter jets, transport jets, helicopters, tanks, and missiles.)*
- ▲ **What programs help people through rough times in the lives of their families?** *(Housing programs, food stamps, Medicare, medicaid, social security.)*
- ▲ **Why does the federal government offer these types of programs?** *(If the students are unclear as to why these programs are offered, explain that one of the goals of the federal government is to provide economic equity. This means that we, as a society, have decided that people should have some of their most important basic wants provided by government if they are having a hard time providing these things for themselves.)*
- ▲ **What is Social Security and Medicare?** *(Social Security is a federal program to provide the elderly with some retirement income, to assist minor children of a parent who has died, and to assist people living with disabilities. This program is not designed to cover all of the*

costs these people may incur, but is considered a supplement to the money saved for retirement, or to assist a family to cope with loss of income due to death or disability. Medicare is a federal health care program for people over the age of 65.)

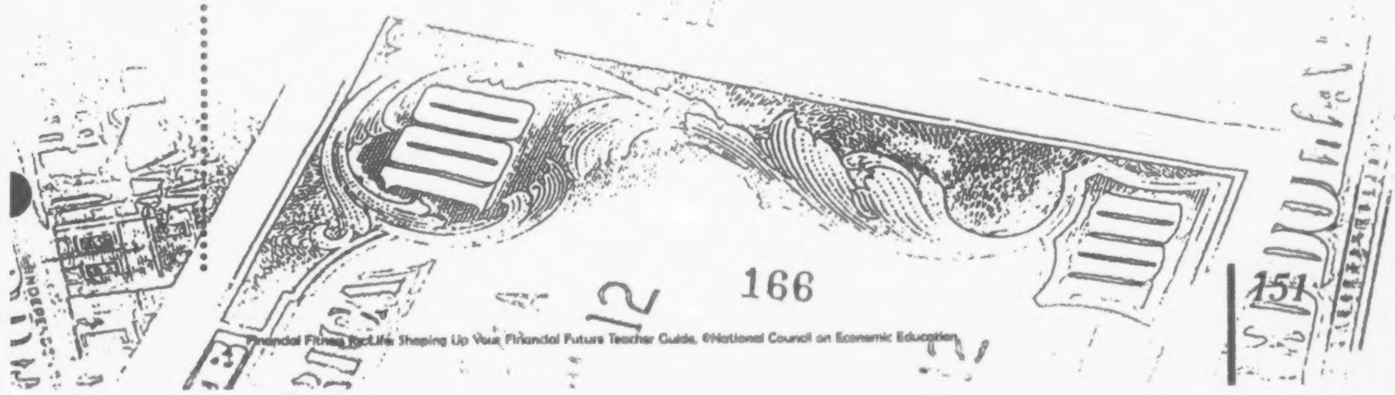
▲ **Which of these programs do you consider to be among the most important?** *(Answers will vary, but the students should recognize that we have all benefited from national defense and interstate highways. The students may also know people who are receiving Social Security or have received "safety net" assistance, such as housing assistance or unemployment compensation.)*

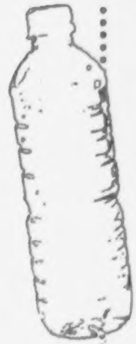
3. Remind the students that they regularly pay sales tax. However, in a few years, they will be paying income taxes. *Income taxes* are taxes on income, both earned income (salaries, wages, tips, commissions) and unearned income (interest from savings accounts, dividends if you hold stock).

   a. Explain to the students that when they are accepted for employment, their first official tax-related duty will be to fill out a *Form W-4*. This form will tell your employer how much money he or she should withhold from your paycheck for income tax. The withheld tax is based on an estimate of the income taxes you will owe. What you will owe is based, in part, on how many people rely on you for their support. These are your *dependents*. If you claim zero dependents, your employer will withhold the largest tax allowable. If you claim one dependent, your employer will withhold a smaller amount of your money. You may not claim more than one dependent if you have no one financially dependent on you, other than yourself. And you may not claim yourself if your parents or guardians claim you as one of their dependents.

   b. Point out that *withholding* is the money that is withheld, sent to the government, and credited to the employee's tax bill. This helps the employee "save" money for taxes. Explain that sometimes employees withhold a little more than is required. This better assures the employees that their taxes are covered for the year, leaving a refund to be returned. On the other hand, withholding more than is required deprives the employee of money he or she could be spending or saving during the year and gives "Uncle Sam" an interest-free loan.

4. Display Visual 17.5, *Who Got a "Pizza" My Paycheck?* Explain that it often comes as a surprise to many new workers when they get their first paychecks and discover they have not received all of the money they expected. Point out that the taxes withheld are for various purposes. Local, state, and federal taxes pay for the goods and services already discussed. FICA, a tax established by the Federal Insurance Contributions Act, pays into the funds established for Social Security and Medicare. The benefits of these taxes occur now and in the future.



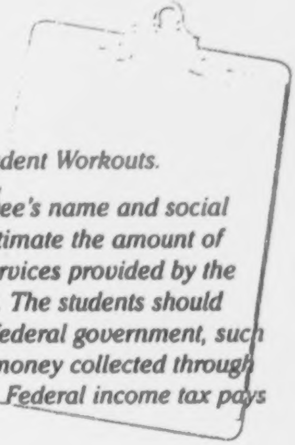


COOL DOWN

Explain that in this lesson, the students have learned about the taxes they currently pay, and taxes they will pay in just a few years. They have also learned the reasons why taxes are important in our society. Ask the following questions:

- ▲ **What are taxes?** *(Taxes are required payments of money to the government.)*
- ▲ **What types of taxes do you pay currently?** *(Sales tax, in some states, and possibly income taxes.)*
- ▲ **What are income taxes?** *(Taxes on both earned and unearned income.)*
- ▲ **What is earned income?** *(Money received in salaries, wages, tips, commissions.)*
- ▲ **What goods and services do local taxes provide?** *(Accept a few answers, such as local roads, police, parks, and so on.)*
- ▲ **What goods and services do state taxes provide?** *(Accept a few answers, such as state roads, state parks, state courts, prisons, and so on.)*
- ▲ **What goods and services do federal taxes provide?** *(Accept a few answers, such as national defense, the space program, transportation, and so on.)*
- ▲ **Why must governments provide these goods and services?** *(Private industry is not likely to provide these types of goods and services because it is difficult to receive payment in return for their use.)*

Assessment



Refer the students to Assessment 17.1, *Where Did the Money Go?* in *Student Workouts.*

The answers are as follows: *1. Personal information, such as the employee's name and social security number, are reported along with the number of dependents to estimate the amount of withholding. 2. The students should respond with any of the goods and services provided by the state, such as state universities, highways & bridges, prisons, and so on. 3. The students should respond with the goods, services, and transfer payments provided by the federal government, such as national defense, transportation, energy programs, and so on. 4. The money collected through FICA deductions goes toward the support of Social Security and Medicare. Federal income tax pays for other government-provided goods and services.*

Other Training Equipment

An annotated bibliography and Internet resource list are available on our web site, **www.ncee.net**, or in *The Parents' Guide to Shaping Up Your Financial Future.*

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Visual 17.1

Tax Troubles

Bleed the Beast

Freedom Tax School

Income Tax Freedom

Inform America

Passport Society

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Visual 17.2

Local Government (City and/or County) Provides...

▲ Local roads, signals, and signs

▲ Schools

▲ Libraries

▲ Community parks

▲ Streetlights and sidewalks

▲ Police and fire protection

▲ City courts

▲ City jails

▲ Health clinics and hospitals (sometimes)

Visual 17.3

State Government Provides...

- ▲ State highways and bridges
- ▲ State colleges/universities
- ▲ Assistance with funding local schools
- ▲ State police and highway patrols
- ▲ State prisons
- ▲ State courts
- ▲ State parks
- ▲ Job training programs
- ▲ Health care and state hospitals

Visual 17.4

Federal Government Provides...

Goods and Services

- ▲ National defense
- ▲ Veterans' programs
- ▲ Military and economic assistance to other countries
- ▲ Foreign embassies
- ▲ Agricultural programs
- ▲ Transportation
- ▲ Assistance to elementary and secondary schools
- ▲ Job training programs
- ▲ Financial assistance for college students
- ▲ The space program
- ▲ Energy programs
- ▲ Scientific research
- ▲ Prisons
- ▲ Federal law enforcement (the FBI)
- ▲ Tax collection
- ▲ National Parks
- ▲ Federal Reserve System/Currency

Transfer Payments

- ▲ Food stamps
- ▲ Housing payments for the poor
- ▲ Social Security and Medicare
- ▲ Health care for the poor (Medicaid)

Visual 17.5

Who Got a "Pizza" My Paycheck?

You've landed your first job. The local pizza place will pay you $5.25 per hour, plus tips. You have agreed to work 25 hours per week. Quick, do the math!

In addition to your first-week's wages, you also earned $150 in tips. Between wages and tips, you have earned $281.25 for only one week's work. You are in the money!

That was the good news. Now, here's the bad news. You, like every other worker, must have some of your money withheld to pay taxes. This is how it breaks down:

First week's wages:	$131.25
First week's tips:	150.00
Total wages and tips	**$281.25**
Federal Tax Withheld (one exemption claimed on Form W-4):	$26.00
State Taxes (amount varies from state to state):	5.25
Local Taxes (amount varies from place to place):	1.28
Social Security Tax Withheld:	17.46
Medicare Tax:	4.08
Total deductions:	**$54.07**
Net Pay: (What you take home.)	**$227.18**

Source: Internal Revenue Service **(www.irs.gov/prod/taxi/learninglab/payday/whogetsdude.html)**

NOTES

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www.bankofamerica.com

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Financial Fitness for Life

SHAPING UP YOUR FINANCIAL FUTURE

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Student Workouts

Grades 6-8

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NCEE
National Council on Economic Education

Financial Fitness for Life

Shaping Up Your Financial Future

Grades 6–8

Student Workouts

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National Council on Economic Education

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THEME 1

There Is No Such [illegible] as a Free Lunch

(The Economic Way of Thinking)

Introduction

Buy One; Get One **Free!**

Free *Trial Offer*

Ten **Free** CDs When You Join Our Club

You've probably seen offers like the ones above in a store or in the mail. If companies are really willing to give products away for free, why do economists say "there is no such thing as a free lunch?" To answer this question, you have to understand that every choice involves a cost.

Because time, space, and money are limited, and human wants are unlimited, people cannot have everything they want. When people cannot have everything they want, they have to make choices, and when they make a choice, they must give something up. The next best alternative that is given up when a choice is made is the opportunity cost.

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Limited time, space, and money + Unlimited wants = People cannot have everything they want

People have to make choices

EVERY CHOICE HAS AN OPPORTUNITY COST

That's why there's no free lunch—or free CDs.
There is always an opportunity cost.

When you make decisions, you need to consider, in a logical way, the opportunity cost of your choices. By using the *economic way of thinking* and by developing a good decision-making plan, you'll be able to evaluate your options and make better choices.

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LESSON 1
The Economic Way of Thinking

Warm-Up

Often, when you talk to a friend or relative, you learn about situations that make you scratch your head and ask, "Why would a person do this?" Here are some examples:

- ▲ A college student runs up $30,000 in credit card debt.
- ▲ A store marks down summer jackets from $300 to only $39.95 in October.
- ▲ Voters defeat a plan to finance a football stadium with property tax revenues.

Unlocking the secrets of these situations might be easier if you applied the economic way of thinking to determine WHY people act the way they do.

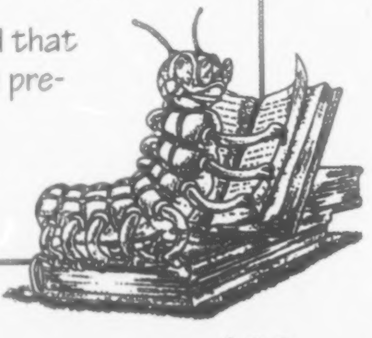
In this lesson, you will learn how to use the economic way of thinking, a process that can help you understand why people save, borrow, and spend the way they do. It will also help you make wise money decisions by examining the way you yourself think and act.

FITNESS VOCABULARY

Opportunity Cost – The next-best alternative that is given up when a choice is made.

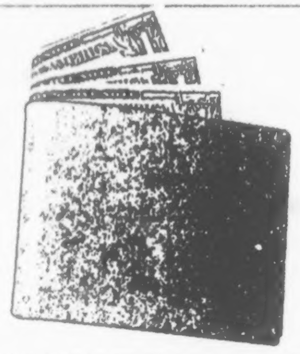
Incentive – A reason or reward that motivates people to behave in predictable ways.

Consequence – The result or effect of a person's behavior.



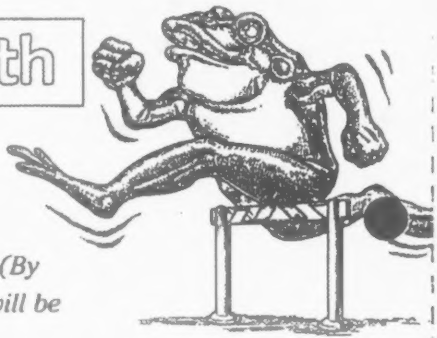
MUSCLE DEVELOPERS

Learn these ideas, practice them, and develop your financial fitness muscles.



- ✓ The **economic way of thinking** provides a method for analyzing people's behavior.
- ✓ Because time, space, and money are limited, and wants are unlimited, people can't have everything they want.
- ✓ People must make *choices.*
- ✓ Every choice involves a *cost.*
- ✓ People respond to *incentives.*
- ✓ Choices have *consequences.*

Showing Your Strength



If you know the answers to these questions, you are developing some financial muscle.

1 **Why should people use the economic way of thinking?** *(By examining the costs and benefits of decisions, people will be more likely to make good decisions.)*

2 **Why do people have to make choices?** *(Resources are limited, and wants are unlimited; people cannot have everything they want. That's why they have to choose.)*

3 **Why do economists say "there's no such thing as a free lunch"?** *(Nothing is free, because every choice involves an opportunity cost.)*

4 **How do incentives work?** *(Incentives are rewards [both monetary and non-monetary] that motivate behavior. Because people tend to respond to incentives in predictable ways, sometimes people's behavior can be changed by offering incentives. For example, if Mom says "I'll pay you $5.00 if you'll baby-sit for your brother," the $5.00 is a monetary incentive. If Mom says "You can stay out an hour later tomorrow if you'll baby-sit for your brother today," the extra hour is a non-monetary incentive.)*

5 **What is a disincentive?** *(Just the opposite of an incentive; it is not a reward but a penalty. Many drivers slow down when they see a police car because getting a $100 fine is a pretty powerful disincentive.)*

6 **What are consequences?** *(The results of behaviors are consequences. Studying for a test usually results in a good grade; the good grade is a consequence.)*

EXERCISE 1.1

Every Choice Has An Opportunity Cost

Because of limited resources and unlimited wants, people have to make choices. Every choice has an opportunity cost.

In each situation below, a person must make choices because of limited time, space, and/or money. Below each description, list the person's alternatives, the choice, and the opportunity cost.

Shaundra's mother's birthday is coming up. Shaundra would like to buy her mom a necklace, but the one she likes costs more than she has saved. What are Shaundra's alternatives? What will she do? What's her opportunity cost?

Alternatives: ____________________

____

Choice: ____________________

Opportunity Cost: ____________________

____

____

Angelo wants to put a 50-gallon aquarium in his room. When he measured the room, Angelo discovered that he wouldn't have enough space for his stereo and the aquarium. What are Angelo's alternatives? What will he do? What's his opportunity cost?

Alternatives: ________________________________

____

Choice: ________________________________

Opportunity Cost: ________________________________

____

____

Raul has raised $200 for a local charity. If he raises $15 more, he will be eligible for a raffle for a new computer. The raffle is tomorrow. What are Raul's alternatives? What will he do? What's his opportunity cost?

Alternatives: ________________________________

____

Choice: ________________________________

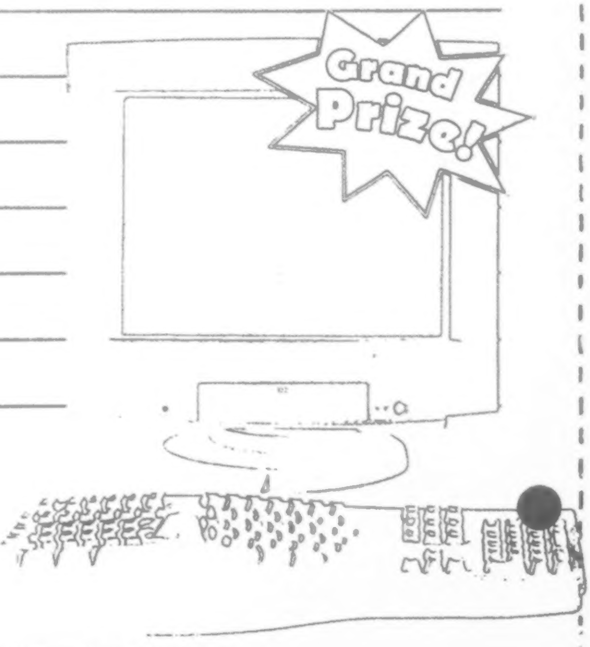
Opportunity Cost: ________________________________

____

____

____

____


Grand Prize!

EXERCISE 1.2

Choosing the Better Incentive

This activity focuses on price, a powerful monetary (or economic) incentive. Working with a partner, evaluate the pairs of coupons/incentives for the 10 purchases below and, for each one, choose the one that provides greater benefit. Then, on the reply sheet, explain how you arrived at your decision.

1. Bookbag: $11.99 (buy one)

The better incentive is coupon #

The reason is:

#1
COUPON
20% off

#2
COUPON
Save $2.00

#1
COUPON
Buy 2 Get 1
FREE!

#2
COUPON
Save $1.00
per box

2. Snappy-Krunch Cereal:
$2.59 per box (buy three boxes)

The better incentive is coupon #

The reason is:

3. Super-Nutty Peanut Butter: 32 oz. jar for $2.56 or 48 oz. jar for $2.99 (buy two jars, either size)

The better incentive is coupon #

The reason is:

#1 COUPON

Buy a 32-oz. jar at regular price, get another **free!**

#2 COUPON

Save $0.50 on each 48-oz. jar

#1 COUPON

Buy one pair – Get another at HALF PRICE!

#2 COUPON

2 pairs for $100.00

4. Soccer shoes: $69.95 a pair (buy two pairs)

The better incentive is coupon #

The reason is:

#1 COUPON

$5 off each ticket (limit 6) when you buy a case of root beer at $7.99 a case

5. Amusement park: All day admission ticket, $45.00 (buy 6 tickets)

The better incentive is coupon #

The reason is:

#2 COUPON

Buy 5 tickets at regular price, get the 6th one FREE

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#1
COUPON
Save 10%
on 3 hours

#2
COUPON
Save $0.50 each hour up to 2 hours; Save $0.25 each hour after that

6. Internet coffee shop:
$6 per hour (pay for 3 hours)

The better incentive is coupon #

The reason is:

7. Scary movie festival:
$8.00 each night for 6 nights
(attend all 6 nights)

The better incentive is coupon #

The reason is:

#1
COUPON
4 nights at regular price;
half price
the next two nights

#2
COUPON
5 nights at regular price
– 6th night FREE

#1
COUPON
Save $2.00 on each pizza
Limit 2

#2
COUPON
Today only:
2 pizzas $35

8. Pizza: $18.99 (buy 2 pizzas)

The better incentive is coupon #

The reason is:

#1
COUPON
REBATE
$14.00 each
Limit 2

#2
COUPON
Save 20%
NO LIMIT

9. Video game: $49.99 (buy 3 games)

The better incentive is coupon #

The reason is:

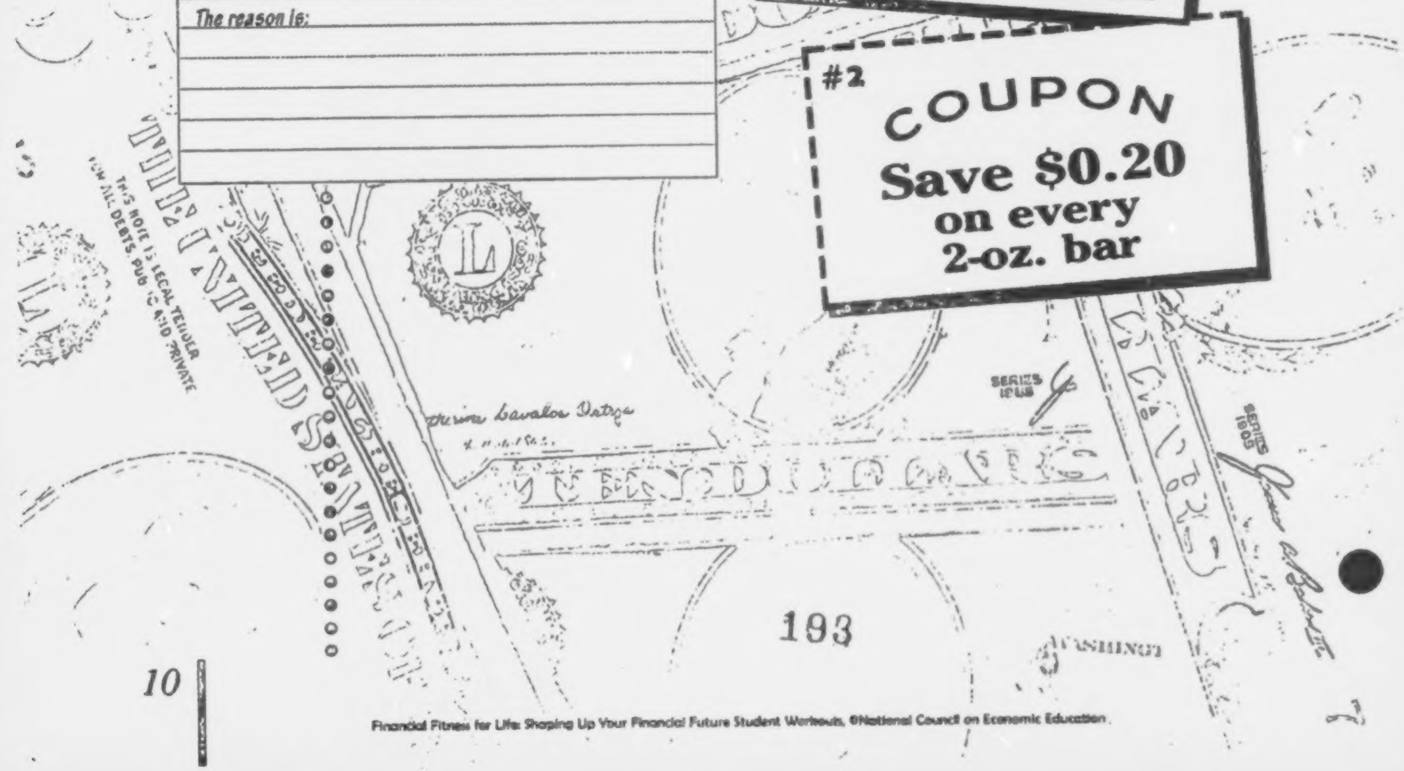
10. Candy bars: 2 oz. for $0.89;
4 oz. for $1.69 (buy 12 oz of candy)

The better incentive is coupon #

The reason is:

#1
COUPON
Buy 2 4-oz. Bars at
regular price
Get a 2-oz. bar FREE

#2
COUPON
Save $0.20
on every
2-oz. bar


THE UNITED STATES OF AMERICA
THIS NOTE IS LEGAL TENDER FOR ALL DEBTS PUBLIC AND PRIVATE
L
SERIES 1985

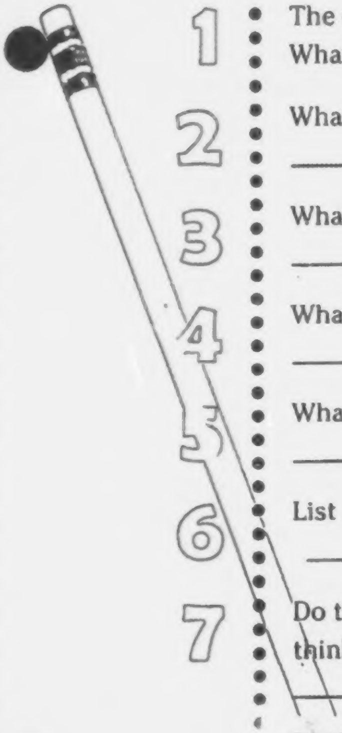
EXERCISE 1.3

Using the Economic Way of Thinking

Read the following situation. Then use the economic way of thinking to analyze the people's behaviors.

Susan B. Anthony Middle School's Honor Society was planning a dance. A music committee was formed to decide whether to use a local DJ or a video/sound show. The committee decided on the video-sound show, even though the price was $300 higher than the local DJ. By paying for the video/sound show, the students believed they could attract more students to the dance.

Finally, when the big night arrived, 250 students from a class of 300 attended the dance, which was the greatest number any dance had ever attracted. The Honor Society was pleased with the results of its fundraiser.



1 The committee could not choose both the DJ and the video show? Why not? What was limited? ____________________

2 What did the committee choose?

3 What was the incentive for its choice?

4 What was the opportunity cost?

5 What were the costs and benefits of the choice?

6 List one or two consequences of the choice.

7 Do the consequences always turn out as planned if you use the economic way of thinking?

On the next page, write another decision-making story, along with questions like the ones above. Challenge your classmates to analyze your story, using the economic way of thinking.

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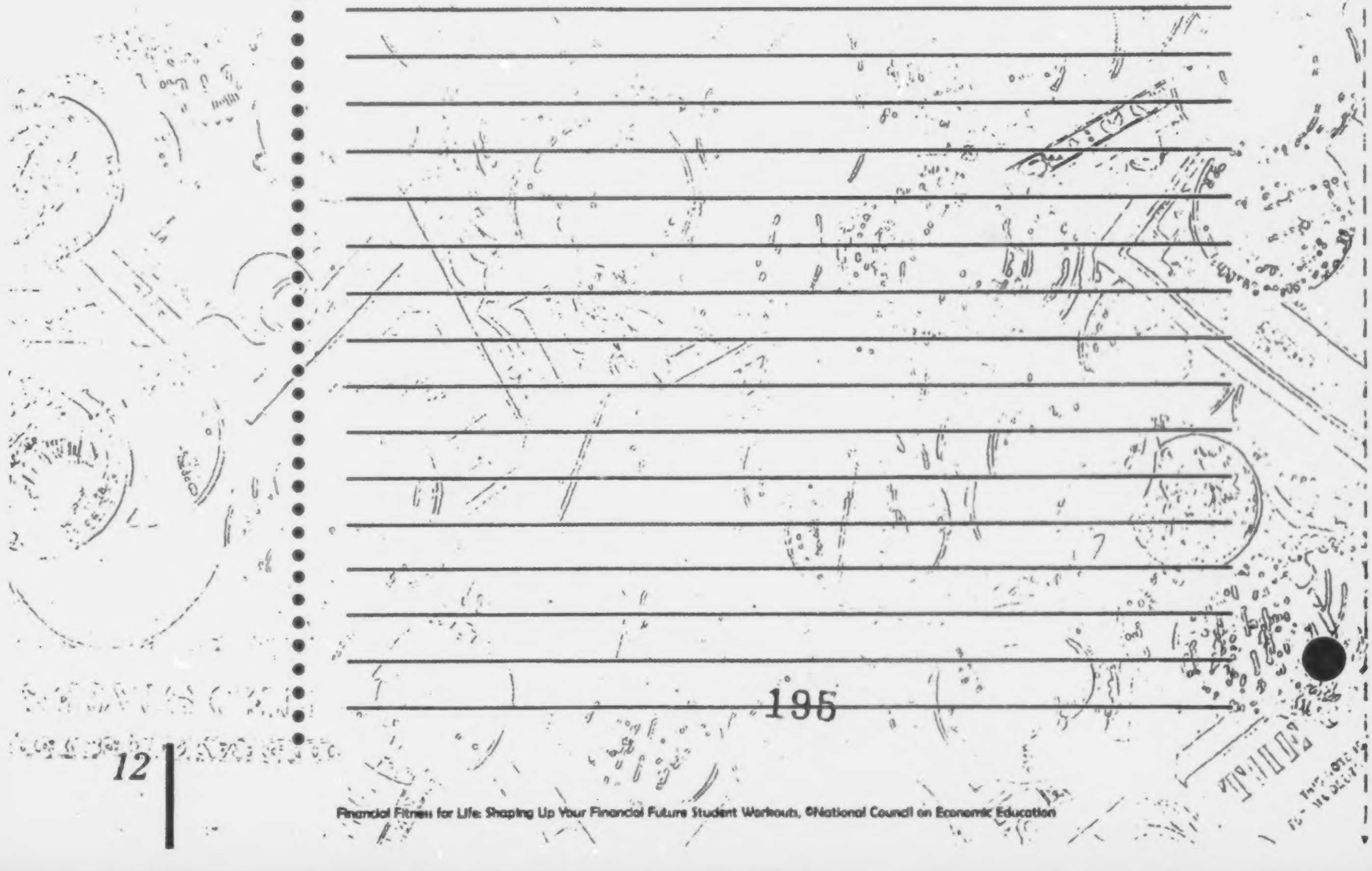


ASSESSMENT

The Economic Way of Thinking

A. Examine the decisions made by the people in the following situations by using the economic way of thinking.

1 Instead of putting an extra $3,000 in their retirement fund, Florence and Joe decided to fly from Chicago to Florida for a week of golf and relaxation.

▲ Choice: ________________________________

▲ Opportunity cost: ________________________________

▲ Incentive: ________________________________

▲ Suggest a consequence of their choice: ________________________________

____

▲ How did Florence and Joe benefit from their choice? ________________________________

____

2 Brian and Sheryl paid their credit card debt instead of putting a down payment on a new convertible.

▲ Choice: ________________________________

▲ Opportunity cost: ________________________________

▲ Incentive: ________________________________

▲ Suggest a consequence of their choice: ________________________________

____

▲ How did Brian and Sheryl benefit from their choice? ________________________________

____

3 Su-Zee, Lorena, and their friends went to the beach instead of working at the school book sale last weekend.

▲ Choice: ________________________________

▲ Opportunity cost: ________________________________

▲ Incentive: ________________________________

▲ Suggest a consequence of their choice: ________________________________

____

▲ How did Su-Zee, Lorena, and their friends benefit from their choice? ________________________________

____

B. Use the economic way of thinking to identify "Why math teachers give homework every day." Consider that the teacher will have to correct the homework, and will have less time for other activities. Think of incentives and consequences for both teacher and students that result from the teacher giving homework every day.

▲ Teacher's Choice: ______________________________

▲ Opportunity cost: ______________________________

▲ Incentive for making the choice: ______________________________

____

▲ Suggest a consequence of the choice: ______________________________

____

▲ How/who benefits? ______________________________

____

LESSON 2
Consumer Decision Making

Warm-Up

Back in your grandparents' days, corner grocery stores carried one or two brands of breakfast cereal, laundry detergent, and soft drinks. It was pretty easy then to decide what to buy with your hard-earned money.

Today's supermarkets and mega-malls are different; they offer thousands of choices. That's good because it provides variety in your life, but it also makes choosing more difficult.

When you go shopping, how do you decide what to buy? Do you pick the first box of cookies you see on a shelf? Do you simply choose the brand you've always bought, without checking out any new products? Or are you a careful shopper who compares ingredients and prices?

This lesson introduces you to a plan that will help you make decisions. The PACED decision-making process is a step-by-step strategy that you can use for making all kinds of choices—the right pair of jeans or basketball shoes, or the best way to spend your time on a Saturday night. Being able to make well-thought-out decisions will start you on the right path toward a lifetime of good choices.

FITNESS VOCABULARY

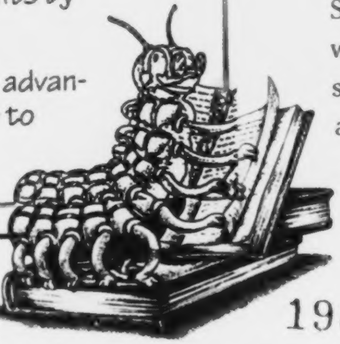
Opportunity Cost – The next-best alternative that is given up when a choice is made.

Trade-Off – Giving up a little of one thing in order to get a little more of something else.

Alternatives – Options to be considered when making a decision.

Criteria – Measures or requirements by which alternatives are judged.

Cost/benefit analysis – comparing advantages and disadvantages in order to make a decision.



The PACED Decision-Making Process includes the following steps:

- ▲ State the **P**roblem.
- ▲ List **A**lternatives.
- ▲ Identify **C**riteria.
- ▲ **E**valuate Alternatives.
- ▲ Make a **D**ecision.

Analyzing costs and benefits, as part of the PACED decision-making process, enables a person to make rational decisions. A rational decision is thought out and based on facts; the opposite would be an impulsive, spur-of-the-moment, emotional decision.

MUSCLE DEVELOPERS

Learn these ideas, practice them, and develop your financial fitness muscles.

✓ Every choice involves an opportunity cost.

✓ Decisions often involve trade-offs: giving up a little of something in order to get more of something else. (For example, you might have two hours free on a Saturday afternoon. You could spend two hours playing basketball and give up studying for a big test, or you might choose to give up an hour of basketball in order to spend an hour studying.)

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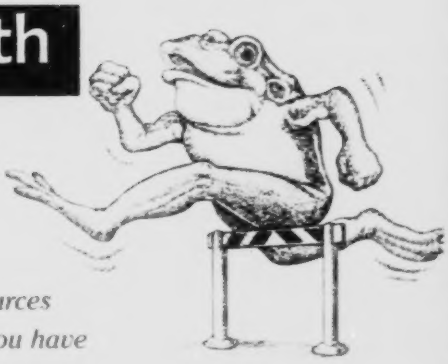
Showing Your Strength



If you know the answers to these questions, you are developing some financial muscle.

1 **Why do people have to make choices?** *(Because resources are limited, you can't have everything you want. So you have to choose.)*

2 **How can you be sure your choice is a good one?** *(Making rational choices is easy if you have a plan. The PACED decision-making process can help you make wise choices.)*

3 **Why is it important to use a decision-making process such as PACED?** *(When you use a plan to make decisions, you begin to think rationally about WHY you are doing what you are doing. As you use the plan for small decisions, you'll become better and better at it. Then, when a big, important choice comes up, you'll be prepared, and make a good decision.)*

4 **After you make a decision, is that the end?** *(Not really. Sometimes you will want to examine the outcome of your decision and re-evaluate your choice.)*

5 **What is cost/benefit analysis?** *(It means looking at the advantages and disadvantages of your alternatives. For example, if your alternatives for Monday night are baby-sitting for $20 or going to the mall with your friends, there are costs and benefits associated with each. If you go to the mall, what's the cost? [You miss out on the $20 baby-sitting money]. What's the benefit? (You get to enjoy being with your friends.] If you baby-sit, what's the cost? [Not being with friends.] What's the benefit? [Having spending money.] When the benefit outweighs the cost, it's a good decision.)*

EXERCISE 2.1

Which Graham Cracker Is Best?

- ▲ **Use A, B, and C in the first column to identify your alternatives (different crackers).**
- ▲ **List the characteristics by which you will judge the item across the top row (criteria).**
- ▲ **Evaluate the alternatives using your criteria.**
  Use the following scoring:
  1 = lowest (or worst)
  2 = middle
  3 = highest (or best)

Criteria ➡ ⬇ **Alternatives**					
A					
B					
C					

EXERCISE 2.2

Using the PACED Decision-Making Process

Use the PACED decision-making process to make a decision for Marcus and Jeff in the story below:

Marcus and Jeff had $80 each and wanted to buy new baseball mitts. They saw two ads in the newspaper for stores in a nearby shopping mall:

Super-Star Sporting Goods Store

SALE

Selected Baseball Mitts

$65.99

All Sales Final.
No Refunds or Exchanges
Sale ends Saturday

Pro-Athlete Sporting Goods Store

SALE

All Baseball Mitts

$75.99

Satisfaction Guaranteed or your money back (Must have receipt for refunds.)

Complete the questions and the grid as you work through the PACED process.

P What is the problem? (List in space above grid.)

A What are the alternatives? (List them in the first column.)

C Name six criteria that Marcus and Jeff might consider when making their decision. (Put one in each cell in the row marked criteria.)

E Evaluate the alternatives, using the criteria you named, using “yes” or “no” in each cell.

D Make a decision. What should they do? (List in space below grid.)

Problem: ____

____

____

Criteria ➡ **Alternatives** ⬇						

What is their decision? ____

____

____

____

What is the opportunity cost? ____

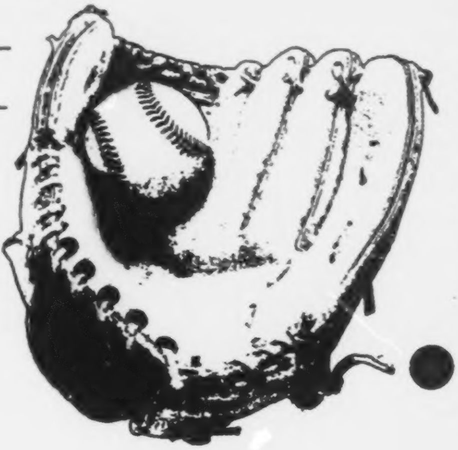
____

____

____

____

____



EXERCISE 2.3

Some Criteria Are More Valuable Than Others

The Noga Family decided it was time to get rid of their old computer and buy a new one. They made a list of criteria that were important in their decision-making plan. After the list was compiled, they agreed that some characteristics of the computer were more important than others, so they gave more value to some criteria than to others. For example, a 17-inch monitor was more important to them than a color printer, and a 56K modem was more important than a stereo sound system. Here's how the values looked in their PACED grid:

Read the ads on the next page. Then, using the PACED grid, help the Noga family decide which computer will be the best choice for them, based upon the values of their criteria.

CRITERIA	VALUE
Less than $2000	[illegible] points
17-inch monitor [illegible]	[illegible] points
Color Printer	[illegible] points
Stereo Sound [illegible]	[illegible] point
56K Modem or [illegible]	[illegible] points
128 MB RAM or [illegible]	[illegible] points
10 GB Hard Drive [illegible]	[illegible] points

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EXERCISE 2.3 CONTINUED

It's the Computer of Your Dreams!

128 MB RAM
Color Printer
17" Monitor
10 GB Hard Drive
Stereo Sound
28 K Modem
$2100

A

Here's the Computer for YOU

✓ $1899.00
✓ 8 GB Hard Drive
✓ 64 MB RAM
✓ Color Printer
✓ 17" Monitor
✓ Stereo Sound
✓ 28 K Modem

B

Tired of waiting while your old computer boots up? Time to move up to a new model!

56 K modem • Color Printer
128 MB RAM • 15" Monitor
8 GB Hard Drive

Only $1999

C

Look no further! We're your Number One Computer Store

☐ 10 GB Hard Drive
☐ 64 MB RAM
☐ $1699.00
☐ 17" Monitor
☐ Stereo Sound
☐ Color Printer
☐ 56K Modem

D

Looking for a Computer? Here it is!!

B & W Laser Printer / 15" Monitor
12 GB Hard Drive / 128 MB RAM
Stereo Sound / 28 K Modem
$1899.00

E

YOU'LL WONDER HOW YOU EVER LIVED WITHOUT THIS NEW COMPUTER SYSTEM!

❖ Color Printer
❖ Stereo Sound
❖ 10 GB Hard Drive
❖ 128 MB RAM
❖ $1399.00
❖ 56k Modem

***17" monitor sold separately**

F

A New Computer! No Money Down! No Interest! 12 months to pay!

10 GB Hard Drive
128 MB RAM
17" Monitor
Color Printer
Stereo Sound
56 K Modem

Only $175/month

G

So Easy to Install – You'll be Surfing the Net in 10 minutes

Color Printer
17" Monitor
64 MB RAM
10 GB Hard Drive
56K Modem
$1799.00

H

Using Different Values in the PACED Decision-Making Grid

Criteria ➡	Less than $2000	17" monitor or larger	Stereo sound system	56K modem or faster	128 MB RAM or more	10 GB hard drive or more	Color printer	Total Value
Value Alternatives	5	5	1	4	3	2	4	
A								
B								
C								
D								
E								
F								
G								
H								

1. Which computer should the Noga family buy, based on your grid?

____

2. Write a sentence or two explaining why the Noga family should buy the computer you suggested.

____

____

____

____

____

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ASSESSMENT

Panel Discussion

Have you ever wondered how several groups, with similar information, can make different decisions about the same issue? It's probably because each group's criteria are different.

In this exercise, your group will evaluate an issue based upon criteria that are important to you. Then you will plan a panel discussion of the issue, based upon your group's concerns. (You can enhance your group's point of view by doing research, too.) In a political debate, such as this one, the side that gets the most votes wins; however, in this exercise it is not as important to win as it is to state clear and powerful arguments for your choice.

Your teacher will assign you to Group A, Group B, or Group C. Imagine that you are a person in that age group with the concerns listed on the group card. As a group, review your concerns and decide which position your group will support [i.e., (1) library and lab, (2) pool and rec center, (3) senior citizen housing facility]. Each person in your group should write a clear statement supporting one of the group's concerns (conducting extra research will help support your argument).

Issue:

Should your town construct:

1 a library and computer lab, or

2 a swimming pool and recreation center, or

3 a senior citizen housing facility

on 10 acres of vacant land?

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Group A

AGE 13–29

CONCERNS
- Year-round activity
- Athletic opportunities
- Health and fitness
- Social gatherings
- Organized competitive games

Group B

AGE 30–54

CONCERNS
- Education
- Employment opportunities
- Access to information
- Investment reports
- Details about travel opportunities

Group C

AGE 55–70

CONCERNS
- Retirement benefits
- Low cost housing opportunities
- Health care
- Contact with others of same age
- Companionship (especially widowed person)

After the groups have considered their criteria and applied them to the alternatives, each group will present a panel discussion to the class. Be sure to include information about the **alternatives** available, the **criteria** that are important to your group, your method of **evaluating the alternatives**, and your final **decision** for how the vacant land should be used. You may include posters, illustrations, charts, graphs, or a multi-media slide show to enhance your group's presentation.

When all groups are finished, discuss the effectiveness of each group's arguments and of their presentations.

THEME 2

Education Pays Off: Learn Something

(Earning Income)

Introduction

There's an old saying that "great oaks from tiny acorns grow." The meaning is simple: great achievements begin small. Then they blossom and flourish.

Education and financial security are good examples of how this works in life. Doing well in the elementary grades, studying all through middle school, graduating from high school, and continuing your education are the little steps that usually result in a big payoff: an enjoyable job with a good income.

The best way to increase your chances for a good income in a career you enjoy is to begin planning NOW. Think about what you like to do in your spare time. Do you like to write stories, fix broken toys, play the trumpet, or gaze through a telescope? Don't worry if the things you enjoy are different from the activities your classmates find appealing. Everybody is unique. But by examining your options, and finding out about careers that will be in demand in the future, you'll be able to make choices that can lead to a good income in an occupation you truly enjoy.

LESSON 3
Career Choice Making

Warm-Up

Scott Turow earned his law degree and was a successful attorney; then he decided to write novels. One of his books, Presumed Innocent, **was made into a successful TV movie. Bill Bradley was a professional basketball player. When his playing days were over, he ran successfully for election to the U.S. Senate and even took a shot at the White House in 2000. Oprah Winfrey began her career as a news reporter. Now she owns her own production company, acts in movies, and teaches at a university.**

How could these people be so successful in such different careers? The answer is simple. They all learned from their experiences and applied their expertise to new situations. Scott Turow's legal know-how influenced his novels about courts and justice. The teamwork and discipline Bill Bradley learned playing basketball enabled him to develop and carry out a successful political campaign in his state. And Oprah Winfrey's ability to relate to all kinds of people as a broadcaster enhanced her success in other arenas too.

FITNESS VOCABULARY

SCANS skills – Guidelines for workplace success (developed by the Department of Labor Secretary's Commission on Achieving Necessary Skills.)

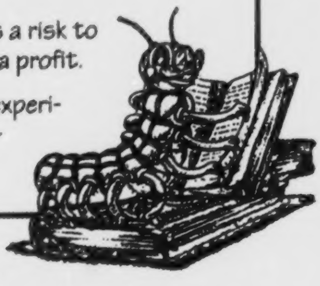
Self-assessment – Examining characteristics about yourself.

Career cluster – Jobs within a similar category, e.g., artist and graphic designer, bookkeeper and accountant, chef and dietitian.

Work ethic – Determination and positive habits on the job. Positive habits include reliability, punctuality, friendliness, honesty, and ability to work independently or in cooperation with others.

Entrepreneur – A person who takes a risk to create a business in order to earn a profit.

Human capital – Knowledge, skills, experience, and attitude that help a person do a job better.



In any job, you have to solve problems, deal with different personalities and make customers feel special. Once learned, these lessons can be practiced in other occupations. Business millionaires such as Steve Case (*America Online*), Jeff Bezos (*Amazon.com*) and Jim Kelly (*United Parcel Service*) started out in ordinary jobs. Case scooped ice cream, Bezos flipped burgers, and Kelly drove a delivery truck. But their experiences taught them responsibility, dependability, and reliability. Later they were able to apply these and other acquired skills to new jobs, and eventually they became leaders in their companies.

You don't have to be rich and famous to recognize that the skills and experience you gain in one career can be utilized in another. In this lesson, you will learn how to examine and evaluate your own qualities so that you will be able to choose a path that will provide a variety of options for both job satisfaction and a good income.

MUSCLE DEVELOPERS

Learn these ideas, practice them, and develop your financial fitness muscles.

- ✔ Applying basic skills, working on a team, communicating effectively, solving problems, and using resources and technology—all are necessary for success in today's workplace.
- ✔ Knowing about yourself—your likes and dislikes—and evaluating alternatives can help you choose the right career.
- ✔ Investing in your human capital increases the likelihood of being successful in your chosen occupation.
- ✔ Demonstrating a good and positive work ethic will make you an asset to an employer.
- ✔ Some people will be successful and satisfied working for someone else. Others —entrepreneurs—find their greatest satisfaction in being their own boss.
- ✔ Entrepreneurs help keep the engine of a market economy running.

Showing Your Strength

If you know the answers to these questions, you are developing some financial muscle.

1 **What is SCANS?** *(In 1992, a government committee met to discuss what it takes to be productive in the workplace. It concluded that the following skills are necessary for success in any occupation: basic skills [reading, writing, math], thinking skills, personal qualities, interpersonal skills, and the ability to acquire and organize resources, information systems, and technology.)*

2 **What are some major categories to examine when assessing your own likes and dislikes in the workplace?** *(Ask yourself if you enjoy working with people, data, things or ideas. Knowing this can help lead you in the direction of a satisfying career.)*

3 **What are career clusters?** *(Categories of occupations that have characteristics in common.)*

4 **Why should you consider career clusters?** *(By focusing on a cluster of careers instead of a single one, more options remain available. That way, if you think you want to be a doctor, but later find out it's not for you, you might use the training you've already completed to become an X-ray technician, a lab assistant, or even a writer in a medical journal.)*

5 **Why should a person develop a good work ethic?** *(Many employers look first for employees with good attitudes and good work habits. They find that it is easier to teach employees the skills needed for a specific job than it is to train people to be pleasant, friendly, punctual, and responsible.)*

6 **Why are entrepreneurs important in an economy?** *(Entrepreneurs are the innovators who notice a problem, help to solve or alleviate the problem by producing a good or service, and turn it into a business opportunity. They are independent, hard-working risk-takers who develop products and help create jobs.)*

7 **How can a person invest in her or his own human capital?** *(By taking the right classes in school, learning on the job, and accepting a summer position as a non-paid intern. A person can acquire the knowledge, skills, experience, and attitude to do a job better through these experiences. Enhanced human capital can lead to more career opportunities.)*

EXERCISE 3.1

Demand for Labor in Various Occupational Areas

The chart on this page shows the Bureau of Labor Statistics' employment figures for 1998 and projected employment figures for the year 2008. Work with your teammates to calculate the number and percentage increase (+) or decrease (–) for each occupational area listed.

A	B	C	D	E
INDUSTRY	**Actual number employed in 1998**	**Projected number employed in 2008**	**Change in number from 1998–2008 (Col C – Column B) Indicate + or –**	**Percentage change 1998–2008 (Col D / Column B) Indicate + or –**
Education	11,174,900	12,884,700		
Hospitals	4,909,200	5,284,900		
Savings institutions	1,904,900	1,932,000		
Federal gov't	1,819,100	1,654,600		
Nursing facilities	1,762,000	2,212,900		
Computer services	1,599,300	3,471,300		
Agriculture, forestry, fishing	1,154,000	1,006,200		
Legal services	972,500	1,200,000		
Engineering	905,200	1,140,000		
Residential care	745,700	1,171,000		
Child care	604,500	800,000		
Apparel manufacturing	547,100	650,000		
TV, radio, music stores	500,300	639,800		
Newspapers	442,500	401,000		
Beauty salons	410,500	465,000		
Non-store retailers	346,400	537,200		
Medical supplies	279,100	334,600		
Advertising	268,200	323,200		
Radio & TV broadcasting	246,900	253,000		
Railroad transportation	230,700	184,900		
Retail bakeries	206,400	247,700		
Personal credit	185,200	246,600		
Cable and pay TV	181,000	230,000		
Video tape rental	165,300	184,900		
Knitting mills	159,400	127,800		
Motion picture theaters	138,100	135,200		
Commercial sports	126,500	160,000		
Funeral services	99,400	110,100		
Museums and zoos	92,600	131,400		
Coal mining	91,600	59,400		
Luggage and leather	45,400	34,400		
Tobacco products	40,600	29,500		

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EXERCISE 3.2

Self-Assessment

The first step toward choosing a career that's right for you is to consider the things you like to do. Use the grid below to assess characteristics about yourself. Then check the next page to learn how you can score yourself on this exercise.

Directions: Place a check (√) in the shaded box next to each statement that describes something you like to do. If you don't enjoy an activity, leave the boxes blank.

I like to:	1	2	3	4	5	6
fix electrical things	☐					
play team sports				☐		
sketch, draw, paint			☐			
keep accurate records						☐
think abstractly		☐				
write factual reports						☐
sell things or promote ideas					☐	
play a musical instrument			☐			
pitch a tent	☐					
follow clearly defined procedures						☐
plan and supervise an activity				☐		
be elected to office					☐	
solve math problems		☐				
work with numbers and data						☐
help people with problems				☐		
write stories and poems			☐			
attend concerts and art exhibits			☐			
work outdoors	☐					
use computers		☐				
be responsible for details						☐
make decisions that affect others					☐	
sing, act, and dance			☐			
meet important people					☐	
build things	☐					
lead a group discussion				☐		
do a lot of paperwork						☐
perform lab experiments		☐				
use a microscope		☐				
read fiction, plays, poetry			☐			
give talks or speeches					☐	
organize activities and events					☐	
be physically active	☐					
mediate disputes				☐		
teach or train others				☐		
work independently		☐				

So, what do your check marks mean? First, total the number of checks in each column, record them in this chart, and circle the top three. Then read the descriptions below:

1	2	3	4	5	6

If one of your top three scores is in Box #1, you are interested in activities that require coordination or physical strength. You like to work with real problems instead of abstract ones. You're probably interested in scientific or mechanical areas.

If one of your top three score is in Box #2, you like to organize and understand things for yourself, but you're not interested in persuading others. You often enjoy working alone and are oriented more toward data and numbers than toward people.

If one of your top three scores is in Box #3, you value self-expression, dislike rigidity and structure, and are prone to be emotional. You are creative and artistic. You are probably interested in music, the fine arts, and crafts.

If one of your top three scores is in Box #4, you like to help people learn new things. You'd rather spend an evening talking with a friend than an afternoon playing basketball or skiing. You're a good listener and are interested in people. Friends often come to you for help in solving problems.

If one of your top three scores is in Box #5, you have keen verbal skills and like to use those skills to persuade others. You could probably be a good salesperson, advertiser, or politician.

If one of your top three scores is in Box #6, you don't mind rules and regulations, especially when you are in control. You enjoy order, and you like things organized. Messy things make you crazy. You are interested in tasks that require accuracy and precision.

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Judging from your responses, prioritize the career clusters below.
(Number 1 is the cluster that is most appealing; Number 6 is the least appealing.)

	Career Cluster	**Typical jobs**
______	Arts and communication	Actor, dancer, newscaster, stagehand
______	Business & technology	Accountant, banker, travel agent
______	Engineering & industry	Mechanic, medical technician, plumber
______	Environmental science	Botanist, florist, marine biologist
______	Health services	Aerobics instructor, dentist, veterinarian
______	Human services	Cook, detective, judge, teacher

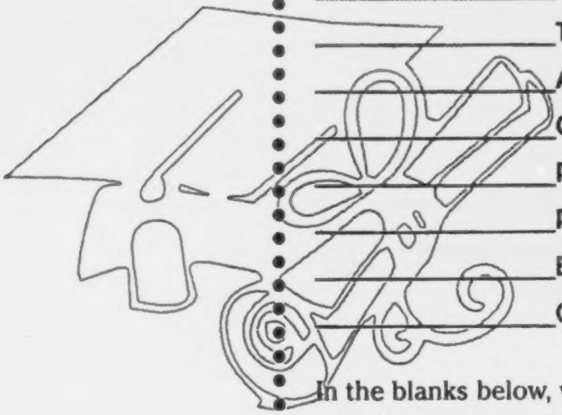
List the types of jobs that relate to the interests you identified in this self-assessment activity.

Adapted from John Holland, PhD, "Holland Occupational Themes"
http://jobs.esc.state.nc.us/soicc/planning/cla.htm

EXERCISE 3.3

Human Capital and SCANS on the Job

Read the job requirements on the next page, taken from actual classified job ads. Then check which ads require the SCANS skills listed below. Write the numbers of the ads in the blanks. (All blanks will have more than one ad listed.)



________________ Basic skills (specific education requirements)

________________ Interpersonal skills (getting along with people)

________________ Teamwork

________________ Ability to use technology

________________ Good oral communication

________________ Problem solving

________________ Positive work ethic (good attitude)

________________ Experience

________________ Organizational skills

In the blanks below, write a short letter explaining why you should be considered for one of the jobs described in the ads. Be sure to include examples of how your human capital meets the requirements listed in the advertisement.

____

____

____

____

____

____

____

____

____

Classified Advertisements

1 Computer Systems Administrator

Leading metal company seeks an individual to be responsible for all daily operations of our Windows Network, running 30 workstations and specialized software. Will develop docucuments, provide technical support, conduct training and assist in creating new forms and reports.

Must have good knowledge of software, Internet and computer basics. Excellent communication skills required; ability to learn/think independently.

Competitive benefits and salary.

5 BIOLOGIST

Manufacturer of medical lab supplies seeks biologists. Responsibilities include project testing, interpreting and reporting test results. You will investigate problems, recommend corrective actions and develop new methods for testing existing products.

Must possess a degree in Life Sciences and have 3 years experience. Computer experience recommended.

Competitive salary and benefits package.

9 GRAPHIC DESIGN SUPERVISOR

Exciting opportunity for a detail-oriented individual with excellent organizational and communication skills. Job will include managing production and projects.

Proficiency in Quark, Photoshop, and knowledge of Macintosh systems are a must.

Must be able to coordinate many projects at a time.

Benefits include medical and dental insurance, profit sharing, 401k, and 30% employee discount.

2 HOTEL Sales Manager

Prestigious hotel is looking for an energetic manager to join our winning sales team. You will be responsible for selling and servicing small meetings in a fast paced environment. The ideal candidate will have hotel background and be a highly motivated team player.

Excellent salary and benefits, including medical, dental and 401k.

6 Restaurant Manager

OCEANSIDE RESTAURANT IS SEARCHING FOR A MANAGER.

Minimum of 3 years experience in a luxury setting, excellent human relations and administrative skills. Must be able to accommodate guests in a gracious, sincere, timely and confident manner.

Superior benefits package including health, dental and life insurance, profit sharing and 401k.

8 NETWORK MANAGER

Health Care Provider seeks someone to drive the development of a health network. Responsibilities include maintaining existing network, resolving health insurance claims and educating patients about policies and procedures.

Must have a Master's Degree and 3 years experience. Strong communication skills are expected. Word and Excel proficiency required. Some travel.

Competitive salary, excellent benefits, ongoing opportunities for professional development.

3 Auto Sales

We're expanding our sales staff. We need motivated sales people with good communication skills and a team spirit.

We offer commissions, bonuses, flexible hours, paid vacation, medical and dental plan, 401k and opportunities for advancement.

4 Administrative Assistant

Help design your own position. New warehouse needs someone to take charge of the phones and run the office. Must enjoy making order out of chaos, beating deadlines and helping co-workers. PC skills, pleasant disposition, and good sense of humor are required.

Full time. Good salary and benefits.

7 EDITORIAL COORDINATOR

You'll coordinate a team of editors and proofreaders assigned to a variety of projects. Must be a problem solver with strong team skills. Effective verbal and written communication is essential. Other responsibilities may include checking research and making corrections. You'll also update files, edit and run reports.

PC and Mac experience a must. Excellent salary and benefits including 401k

10 Customer Service Representative

Manufacturer of bakeware seeks an experienced customer service rep. Candidate must have excellent phone skills, a positive attitude, and ability to solve problems on the spot. Must be proficient in Microsoft Word and have data entry experience.

Benefits include Medical/Dental/Vision Insurance, 401k plan and a fitness facility.

EXERCISE 3.4

How Do Entrepreneurs Earn A Living?

You probably noticed that the job listings in Exercise 3.3 included information about salaries and benefits. Most people like having the security of a regular salary, paid health care insurance, and a pension package. Entrepreneurs are different. When they take on the challenge of running their own businesses, they have to provide their own paychecks, insurance, and retirement plans. Consider the following situation.

Dimitrio's Furniture Shop

Dimitrio is an entrepreneur. He quit his job at a local furniture store to open his own business. Being a talented woodworker, he handcrafts some furniture to sell; he finds other items at auctions, repairs and resells them at a profit.

The figures below show how much Dimitrio earned each month when he worked as an employee at the furniture store. (For the sake of simplicity, taxes and social security are not included.)

Dimitrio's salary when he worked at the furniture store	$3,000.00
The value of Dimitrio's medical insurance	150.00
The value of Dimitrio's dental insurance	75.00
The value of Dimitrio's vision insurance	75.00
The amount Dimitrio's employer contributed to his retirement	60.00

The figures below show Dimitrio's July expenses in his new business.

Rent	$1,750.00
Electricity	230.00
Heat	320.00
Water	215.00
Advertising	1,200.00
Materials, supplies and equipment	22,400.00
Maintenance and service of equipment	350.00

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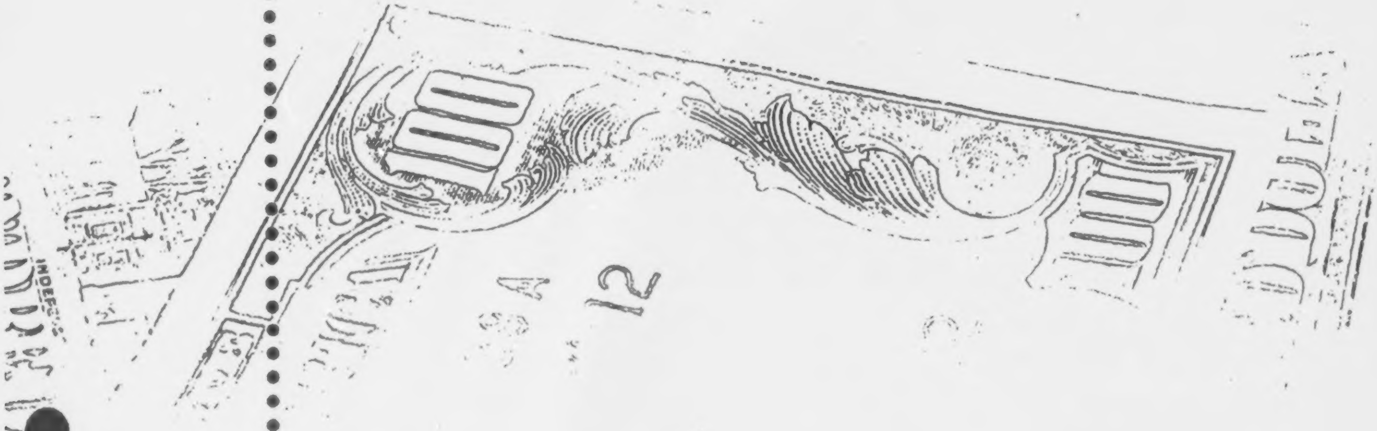
A Dimitrio had enough revenue in July to (1) pay his July expenses and (2) pay himself the same monthly salary and benefits he earned when he worked for someone else. How much revenue did Dimitrio earn in July?

B If Dimitrio made the same amount of total salary and benefits running his own business as when he worked for someone else, should Dimitrio continue to run his own business?

BONUS

About what percent of total revenue did Dimitrio use to pay himself in July?



ASSIGNMENT
3.1

What's Wrong With This Picture?

Read the story below, and underline every statement that illustrates habits that will NOT prepare Kelly for a successful career. Then, above each incorrect statement, write the letter of the SCANS skill that Kelly is lacking.

HINT: You should find more than 12 mistakes.

Choose from these SCANS skills:

A Reading, writing and math
B Interpersonal skills
C Teamwork
D Use of technology
E Oral communication
F Problem solving
G Good work ethic/on time/good attitude
H Organizational skills

Kelly is a seventh grader at Middleton Middle School. Her first class begins at 8:05, so she sets her alarm for 7:30. That way she's out of the kitchen door at 7:50 and ready for her 20-minute walk to school. Yesterday, when she entered the building, she saw the principal, Ms. Ramirez.

"Yo," Kelly shouted. "What's happenin'?"

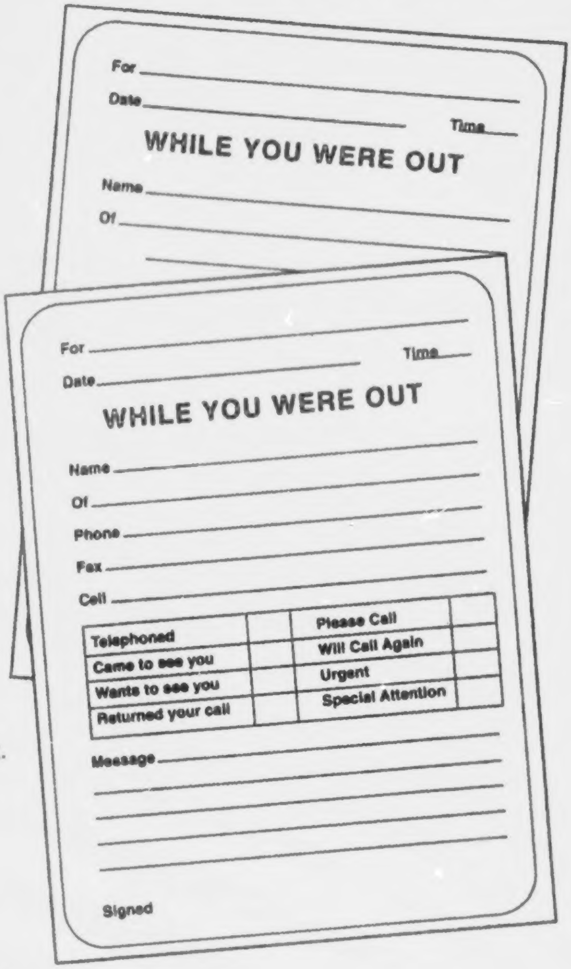
"You're late, Kelly," said the principal, frowning.

"Whatever!" replied Kelly, as she raced down the hall.

In class, Kelly ruffled through her book bag but could not find any pens, pencils, or paper. When Mr. Choy asked for her math assignment, she didn't have that either.

"You'll have to go to the office," Mr. Choy told her.

In the principal's office, Kelly was asked to answer the phone while one of the secretaries stepped out. When the phone rang, Kelly picked it up


For
Date
Time
WHILE YOU WERE OUT
Name
Of
For
Time
Date
WHILE YOU WERE OUT
Name
Of
Phone
Fax
Cell
Telephoned
Came to see you
Wants to see you
Returned your call
Please Call
Will Call Again
Urgent
Special Attention
Message
Signed

"Hey, man, this is Middleton school. Whaddya want?" she said.

The caller hung up, but Kelly could not figure out why. She decided to leave a note for the secretary. It said: "Deer Sekretery, Somebody called and hung up. I dont no who it was."

When the phone rang again, Kelly said, "Whooze zis?"

"Please have Ms. Ramirez call the superintendent's office by 9:30."

"Okay, okay," said Kelly. On a piece of scrap paper she wrote: "Ms. Ramire[illegible]—go to the custodian's office after 9:30."

"Kelly, you need to keep a good record of the calls," said the school clerk.

"You can't tell me what to do," shouted Kelly. "I'm doin' ya a favor by helpin' ya out."

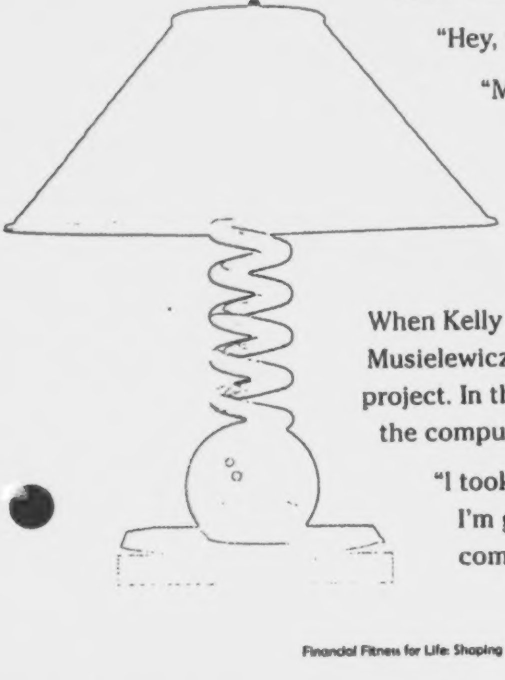
The next day when Kelly woke up, it was dark in her bedroom. She flipped the switch about ten times, but her lamp would not light.

"Hey, what's wrong with my lamp?" she yelled to her mother.

"Maybe the bulb burned out," her mother suggested.

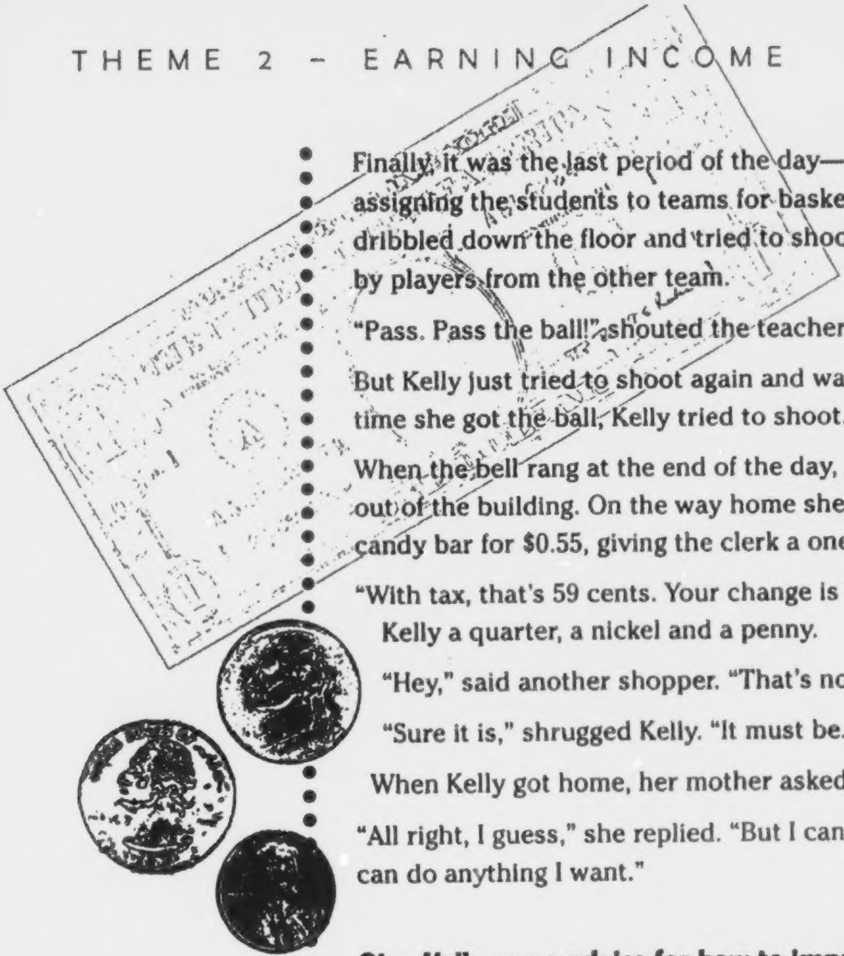
"Oh, I never thought of that," said Kelly.

Kelly had not done her homework, so she decided not to go to school. "Let's see, that's 15 days absent so far this year. That ain't too bad," she said.



When Kelly finally returned to school her social studies teacher, Ms. Musielewicz, sent her to the computer lab to do some research for a big project. In the lab, Kelly was clueless. She did not even know how to turn on the computer. The lab assistant tried to help her, but Kelly just shrugged.

"I took that stupid computer class last year, but I didn't like it. Besides, I'm gonna be a mechanic when I'm done with school. I don't need no computer skills."



Finally, it was the last period of the day—gym class. The substitute teacher was assigning the students to teams for basketball. When Kelly got the ball, she dribbled down the floor and tried to shoot, even though she was surrounded by players from the other team.

"Pass. Pass the ball!" shouted the teacher.

But Kelly just tried to shoot again and was blocked by another player. Every time she got the ball, Kelly tried to shoot. She never passed to another player.

When the bell rang at the end of the day, Kelly grabbed her book bag and ran out of the building. On the way home she stopped at the store and bought a candy bar for $0.55, giving the clerk a one-dollar bill.

"With tax, that's 59 cents. Your change is 31 cents," the cashier said, handing Kelly a quarter, a nickel and a penny.

"Hey," said another shopper. "That's not the right change."

"Sure it is," shrugged Kelly. "It must be. The man said it was."

When Kelly got home, her mother asked how things went at school.

"All right, I guess," she replied. "But I can't wait to finish and get a job. Then I can do anything I want."

Give Kelly some advice for how to improve her human capital and increase her chances for a successful career.

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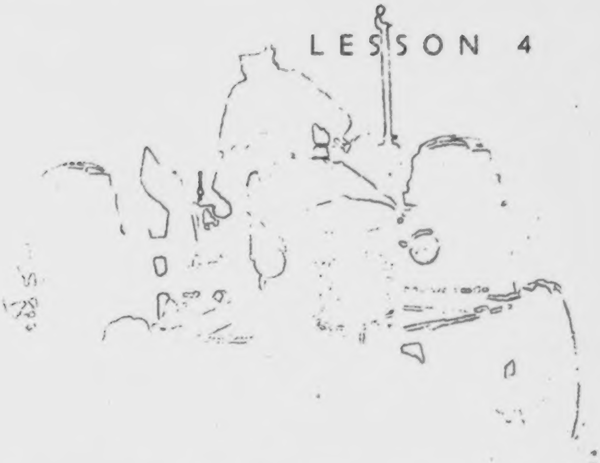

LESSON 4
Productivity

Warm-Up

If you live in a city, you probably don't often think about the big changes that have taken place on U.S. farms. For example:

- ▲ In 1960, the average U.S. corn farmer was able to harvest 60 bushels of corn from an acre of land. Today, that number has increased to 120 bushels.
- ▲ Wheat yields have also doubled, from 19 bushels per acre in 1960 to 38 bushels today.
- ▲ Soybeans have increased from 24 bushels per acre to 34.
- ▲ Cattle have gotten bigger too. In the 1960's, beef cattle weighed an average of 360 pounds; now the average is 569 pounds.

Source: www.purdue.edu/UNS/html4ever/9703.Martin.productivity.html

MUSCLE DEVELOPERS

Learn these ideas, practice them, and develop your financial fitness muscles.

- ✓ Productivity relates to the output of resources, such as how much a worker produces each day.
- ✓ Improvements in capital resources lead to greater productivity.
- ✓ Investment in human capital leads to greater productivity.
- ✓ Increased productivity results in a higher standard of living.

Technology has affected every area of productive resources. Productive resources are natural (soil, climate, minerals), human (workers skills and knowledge), and capital (buildings, machinery and tools).

Look at how technology and education have affected productive resources:

Natural resources. Fertilizers, herbicides and insecticides, irrigation and crop rotation have increased the yield per acre of land, a natural resource.

Human resources. Farmers are educated today to use techniques and equipment that were unknown 100 years ago.

Capital resources. High-tech tools and machinery increase the output that farmers can expect from their fields and herds.

All these improvements mean more products for consumers: more steaks, hot-dogs, pizzas, and, yes, more broccoli too. Increased productivity means that our standard of living is higher.

What does this have to do with the millions of people who don't live on farms? And what does it have to do with you?

Technology has not only affected farmers. Think about how your life has changed in the past few years because of new and improved tools. You can type a report quicker on a computer than on a typewriter; you can do research on the Internet at home without having to go to the library; you can order books and music CDs online instead of driving all the way to the mall.

That makes you more productive: you can accomplish the same amount of work in less time and with less effort. Someday you'll be able to use your new productivity and your improved human capital to get a better job, earn a higher income, and enjoy a higher standard of living for yourself and your family.

FITNESS VOCABULARY

Productivity – The amount of output per unit of input; e.g., if 5 workers can produce 25 gizmos in one day, the productivity per day is 5 gizmos per worker.

Productive resources – Natural, human, and capital resources.

Natural resources – Gifts of nature, such as land, water, and air.

Human resources – Everyone in the economy who works; includes the entrepreneur who puts resources together to produce new goods and services.

Capital resources – Tools, machines, and other devices that make work faster, easier, and more efficient.

Showing Your Strength

If you know the answers to these questions, you are developing some financial muscle.

1 **How can productivity be increased?** *(Productivity can be increased by improving any of the resources. If land [natural resources] can be improved by adding fertilizer or a new technology, land will produce more crops. If workers or entrepreneurs use improved work procedures, they will produce more goods or services. More or improved equipment can result in increased production.)*

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2 **What are some examples of natural resources?** *(Air, land, water, trees, and minerals are natural resources.)*

3 **What are capital resources?** *(One definition is "goods that are used to make other goods." Capital resources include buildings, bulldozers, trucks, pencils, computers, hammers, cash registers, and other devices that make work more efficient.)*

4 **How do human resources affect productivity?** *(The quality of an economy's human resources is one of the key reasons for its productivity. A skilled and educated workforce, both entrepreneurs and workers, is able to use capital and natural resources to produce a variety of goods and services.)*

5 **Why is it important to invest in your own human capital?** *(By increasing your skills, knowledge, and experience, you become a more valuable worker and may earn a higher income.)*

6 **What is the relationship between productivity and standard of living?** *(There is a direct relationship between the two. The higher the productivity, the higher the standard of living. Usually high productivity means there are more goods and services available and more income to buy those items.)*

EXERCISE 4.1

The Whole Story

A couple of years ago, Mike and Chris started a summer business. It all started in February when the guys were talking about how they might earn some money. They were both 12, so they knew getting a job in a store or fast food place was out of the question because of their age. They decided to go into business for themselves. After examining all of the types of work typically done by boys their age, they decided to go into the grass-mowing business.

Chris went to work immediately. February and March are too early to cut grass, but he knew it wasn't too soon to start lining up customers. He printed flyers and went for long, neighborhood walks, placing the flyers on the doorknob of every house he saw. He hung flyers on signs and trees. He placed ads in local papers and on bulletin boards at all the local stores.

When summer arrived, Mike and Chris had enough work to keep them busy 20 hours a week.

They cut grass all around the neighborhood. Chris even contacted Yolanda, the owner of the neighborhood ball fields, and arranged to cut the fields every Wednesday morning. The ball field was a good account; Chris had negotiated with Yolanda to get a fee of $16.00 per hour ($8.00 per person).

Week after week, Mike and Chris cut the grass at the ball field. They had identical lawn mowers, began cutting at the same time, and finished in two hours. However, at the end of each two-hour work session, Mike had cut three-fourths of the field while Chris had cut only one-fourth. Yolanda commended Mike for his productivity.

It may have been that Mike was simply a better worker than Chris was; however, there may have been other differences that affected the boys' productivity.

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A What skills did Chris have that Mike may not have?

B Was Mike really more productive than Chris was?

Answer questions (A) and (B) on the lines below:

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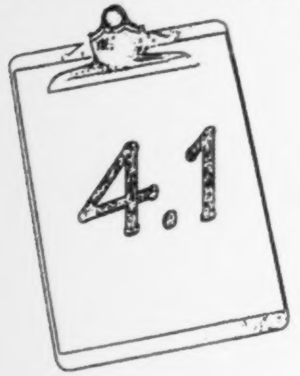
ASSESSMENT



Career Search

Choose a career that interests you.

For example, you might be curious about a career in web design, biological research, public relations, or health care. Even though your first full-time job may seem a long way off, it's never too early to begin to prepare. Find two articles from a popular magazine, a web site, or newspaper that features a career that interests you. You may substitute an interview with someone currently in your career choice for one of the articles. Use the information in the articles and interview to answer the following questions. Attach a copy of the articles or interview to this sheet.

On what career are you focusing?

____

What do you find interesting about this career?

____

____

What capital resources might someone use in this career?

____

____

In what ways do the use of these capital resources help the worker to be more productive?

____

____

____

____

What skills are required of someone in this career?

____

____

What level of education would you need to acquire the skills for this career?

____

What subjects, in particular, would you need to study?

____

____

What is the average annual salary for someone in this career?

____

LESSON 5

Why Stay in School?

Warm-Up

Question: *Why do people work?*

Answer: *To make money.*

People do not work for money, but rather for the goods, services, and security that money can buy. Of course, you'll be able to buy more of the things you want if you have more money. Besides working for the things money can buy, people also work for the personal satisfaction they gain from the work.

You can acquire money in several different ways. You could steal it—but that harms other people, and living in prison isn't too much fun. You can receive it as a gift—but that's not too steady or predictable. (Besides, your Aunt Mabel isn't going to send you a birthday check for the rest of your life.) If you're like most people, you'll get most of your money by working for it.

Working is something you'll probably do for 30, 40, or 50 years. So how can you make the most of your time on the job? The best thing to do is to plan ahead and invest in your human capital by getting as much education and

FITNESS VOCABULARY

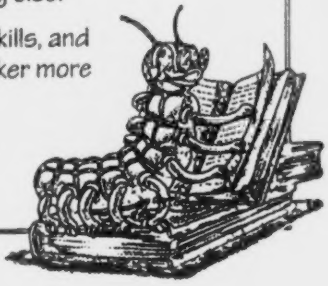
Income – Money earned during a specified period (e.g., $10 per hour or $50,000 per year.)

Opportunity cost – The next-best alternative that is given up when a choice is made.

Trade off – Giving up a little of something in order to get a little more of something else.

Human capital – Knowledge, skills, and experiences that make a worker more productive.

Wages – Income earned from working.



training as possible, especially in a field in which you have an interest or aptitude. By staying in school, learning a trade, earning an advanced degree, or serving an apprenticeship, you can master the skills and gain the knowledge you'll need to be successful in a career that you enjoy. Studies show that people with more education have more job satisfaction and earn higher incomes.

If you choose to stay in school you'll learn extra skills, become a more valuable worker, and have the opportunity to earn a higher income. With a higher income you'll have more opportunities to use the money you earn to plan for your financial future.

Showing Your Strength

If you know the answers to these questions, you are developing some financial muscle.

1 **Why do people with more education earn higher incomes?** *(Education is a way of investing in human capital and acquiring more skills, knowledge, and experience. The added knowledge makes you a more valuable worker. Employers are willing to pay more for more valuable workers.)*

2 **Does everyone with more education earn more?** *(Sometimes people with less education earn a lot of money, but that's because they possess certain skills and knowledge that are in great demand. For example, some professional baseball players do not have college degrees, but they have a specialized skill that many other people do not have.)*

3 **What about entrepreneurs? Do they all have advanced degrees?** *(Entrepreneurs do not all have advanced degrees, but many do. However, they are often innovators who*

have a specialized kind of human capital. They possess skills and creativity that others do not have. By using their human capital in their own businesses, entrepreneurs become valuable in the marketplace.)

4 **What's the best way to increase the likelihood of earning a higher income in the future?** *(Studies indicate a positive relationship between more education and higher income, so the best thing to do is stay in school and get all the education and training you can.)*

MUSCLE DEVELOPERS

Learn these ideas, practice them, and develop your financial fitness muscles.

- ✓ People can earn income by working for others or by working for themselves. People who work for themselves are called entrepreneurs. They develop an idea and create goods or services that other people buy.
- ✓ Investing in your human capital can make you a more valuable and highly paid worker.
- ✓ Choosing to invest in your human capital involves an opportunity cost. (For example, when you choose to stay in school you give up the income you could have earned if you were working.)
- ✓ Investing in human capital may involve a trade-off. You might choose to go to school only part-time so you can continue to work part-time, or so that you can spend more time with your friends or family.
- ✓ People who have more education and training generally earn higher incomes than those who have less education and training.

EXERCISE 5.1

Some Things About School Are So...

Finish the sentence "Some things about school are so . . . ," by listing those things about school you think are difficult or hard, those that are comfortable or so-so, and those that are easy for you.

Difficult	Comfortable	Easy

What actions can you take to improve your ability and skill in areas you find difficult?

What is your plan of action, your timeline, for improvement?

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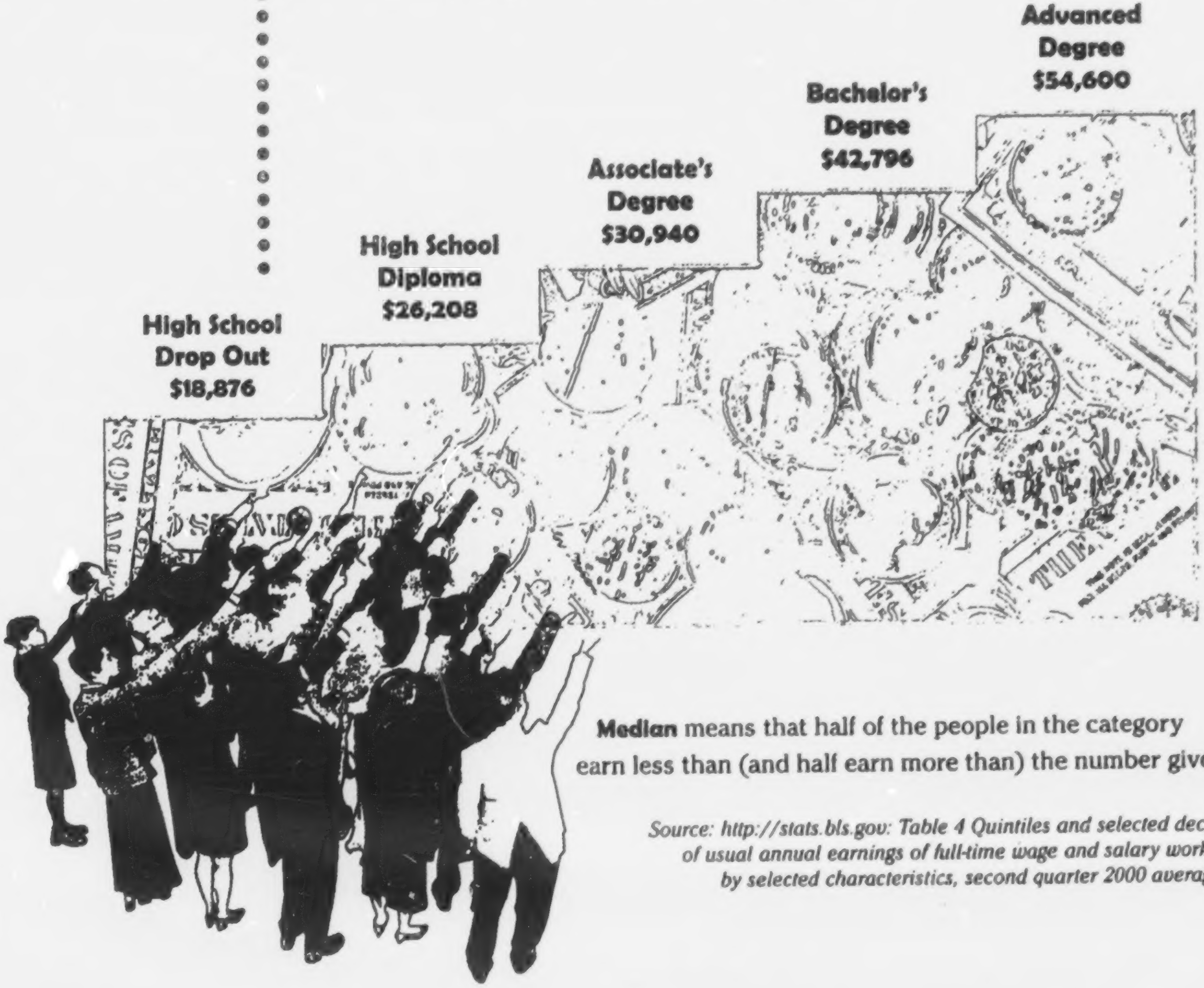
EXERCISE 5.2

Steps to Success

Median earnings of full-time wage and salary workers



Median means that half of the people in the category earn less than (and half earn more than) the number given.

Source: http://stats.bls.gov: Table 4 Quintiles and selected deciles of usual annual earnings of full-time wage and salary workers by selected characteristics, second quarter 2000 averages.

Instructions: Study the table and answer the questions that follow.

1 **Calculate the difference in salary between**

a. a high school dropout and a high school graduate. ______

b. a high school graduate and a graduate from a two-year college program (associate's degree). ______

c. a two-year college graduate and a four-year college graduate (bachelor's degree). ______

d. a four-year college graduate and an individual with an advanced degree (master's or doctorate). ______

2 **Calculate the lifetime earnings of each level of educational attainment using the table below. Have students assume each person works until 70 years of age. Other assumptions include:**

a. the high school dropout begins full-time work at age 16.

b. the high school graduate begins full-time work at age 18.

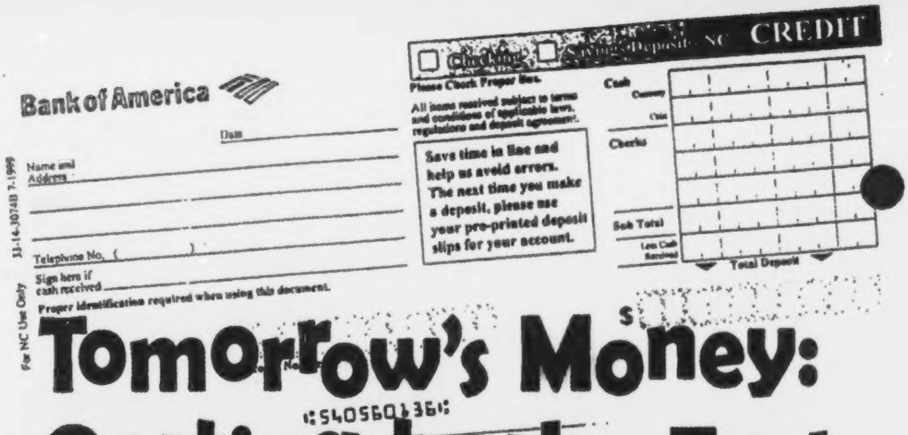
c. the graduate of the two-year college begins full-time work at age 20.

d. the graduate of the four-year college begins full-time work at age 22.

e. the graduate with a master's degree begins full-time work at age 24.

	H.S. dropout	H.S. diploma	Associate's degree	Bachelor's degree	Advanced degree
Annual Income	$18,876	$26,208	$30,940	$42,796	$54,600
Years worked					
Life earnings					

THEME 3



Bank of America

Date

Name and Address

Telephone No. ( )

Sign here if cash received

Proper identification required when using this document.

33-14-3074B 7-1999

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☐ Checking ☐ Savings Deposit NC CREDIT

Please Check Proper Box.

All items received subject to terms and conditions of applicable laws, regulations and deposit agreement.

Save time in line and help us avoid errors. The next time you make a deposit, please use your pre-printed deposit slips for your account.

Cash Currency

Coin

Checks

Sub Total

Less Cash Received

Total Deposit

$

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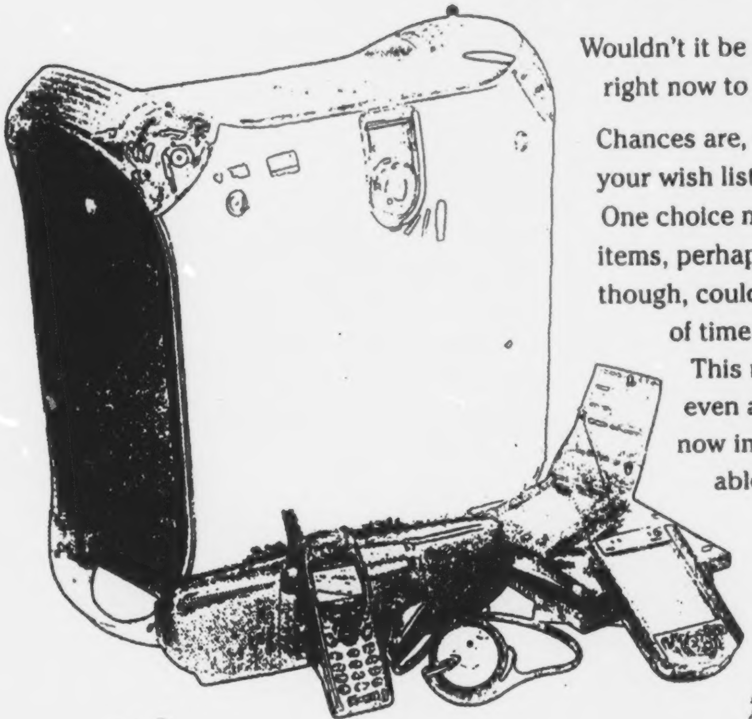
Tomorrow's Money: Getting to the End of the Rainbow

(Saving)

Introduction

If you could have a wish list, what would it include? A mega stereo system? A new wardrobe? A computer? All of the above?



Wouldn't it be great to have all the money you needed right now to buy all the things you want?

Chances are, though, you can't afford all the things on your wish list. That's why you have to make choices. One choice might be simply to do without one of the items, perhaps the stereo system. Another choice, though, could be to save part of your income for a period of time until you have enough to pay for the stereo. This might take a few weeks or months, or maybe even a year, but by choosing to give up spending now in order to save for the future, you would be able to buy that stereo eventually.

LESSON 6
Why Save?

Warm-Up

In order to be successful at saving so that they can buy the things they want most, people usually set goals. Those who stick with their goals find satisfaction in two ways. They get more of the goods and services they want most. They also feel a lot of self-satisfaction and a sense of accomplishment—like the feeling a sprinter gets who wins a big race, or like a student who gets an A on a difficult test.

This lesson introduces you to the importance of setting saving goals and investing for the future. Some goals may be achieved quickly; others will take longer. The good news is: if you consider your options carefully, you'll probably make the right decisions, decisions that can help you reach the goals you have set.

MUSCLE DEVELOPERS

Learn these ideas, practice them, and develop your financial fitness muscles.

- ✓ Saving can help you get the things you want most.
- ✓ Saving goals can be short-, medium- or long-term, depending on what you're saving for and how much you can save each period (week, month or year).
- ✓ When you save for the future, you give up the chance to spend now.
- ✓ The best spending alternative you give up when you save is your opportunity cost.
- ✓ Because resources are scarce, you have to make choices.
- ✓ People choose to save and invest so that they can have the things they want in the future.

No matter how little or how much money you want to save, you'll have to give up buying something now in order to save and invest for the future. The thing you give up is your *opportunity cost*.

If you save your loose change until you have a dollar to buy a large candy bar, you might be giving up the opportunity to buy gum from the gum ball machine now and then. In that case, the gum balls are your opportunity cost. If you save $10 a month for six months until you have $60 for a concert ticket, you might give up the chance to spend money at an amusement park one month, buy a music CD the next month, or treat your brother to a pizza the third month. In every case, the best spending alternative you give up when you decide to save is your opportunity cost.

You may find it difficult to imagine saving for five or six years to buy something you really want. That's a long time when you're 12 or 13. In fact, it's nearly half your life! But lots of people set long-term goals for themselves. They plan for things that are three, five, or even ten years in the future.

FITNESS VOCABULARY

Short-term goals – Goals you plan to achieve in fewer than two months.

Medium-term goals – Goals you plan to achieve in two months to three years.

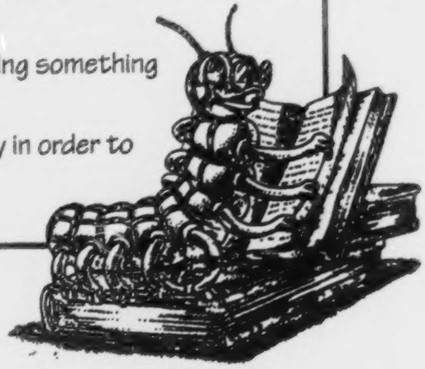
Long-term goals – Goals you plan to achieve in more than three years.

Opportunity cost – The value of the next-best alternative given up when a choice is made.

Scarcity – The economic problem that exists because of unlimited wants and limited resources.

Saving – The act of putting something aside for later use.

Investing – Saving money in order to earn a financial return.



Showing Your Strength

If you know the answers to these questions, you are developing some financial muscle.

1 **Why is it important to set goals?** *(Goals are end points that act as incentives. They help you stay focused on saving so you can buy the things you want most.)*

2 **When should you set short-, medium-, or long-term savings goals?** *(Set a short-term savings goal if you think it will take you fewer than two months to save enough money. Set a medium-term saving goal for one between two months and three years. If you need to save for more than three years, set a long-term goal.)*

3 **What is the opportunity cost of saving?** *(Saving for some future goal means giving up the chance to spend now. Postponing consumption allows people to save for the purchase of future goods and services.)*

4 **What is the difference between saving and investing?** *(Saving is the act of setting something aside. You can save sea shells, rocks, pennies or even dollar bills in a jar at home. Investing means earning a financial return. Putting money in a bank savings account, bond, or stock is investing. Your intent is to earn a return on your money.)*

EXERCISE 6.1

How To Reach a Goal

Read the stories below and calculate whether students at Elm Valley Middle School can reach their goals. Identify whether the goals are short- (up to two months), medium- (two months to three years), or long-term (more than three years). If any of the students in the stories cannot reach his or her goal, suggest some ways he or she could reach the saving goal.

1 José tutors some sixth graders in math and earns $36 a week. He always puts $15 in his college fund and uses the rest for everyday expenses.

At a jewelry store downtown, he spotted a bracelet that he'd like to buy for his mother's 40th birthday, three years from now. It was a real beauty, but the price was $2,100. If José puts aside $15 a week for college and spends $8 a week on himself, how long will it take him to save enough to buy the bracelet? (Do not consider any interest he might be earning on his savings.) Will it be a short-, medium- or long-term goal? Explain why. If he cannot save enough according to the present schedule, suggest some ways he could reach the goal.

2 Lauren earns $17 every Saturday baby-sitting for her neighbors. She also receives an allowance of $10 per week for the chores she regularly does at home. Her parents have a rule that she must put half of her allowance in her college fund, a savings account from which she never withdraws any money.

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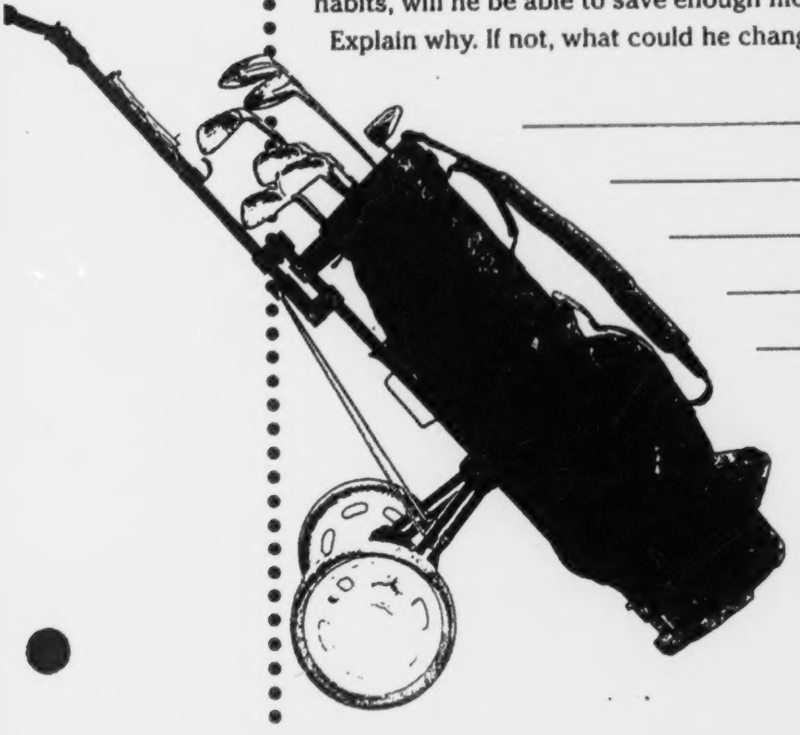
Lauren plays tenor saxophone in the school band and has been renting an instrument from the music department. Last week Lauren saw a used sax at a music store in the mall. She'd really like to buy it, but it costs $175. Her parents told her that if she saves the $175, they'd pay the sales tax for her.

If Lauren continues to contribute to her college fund, saves every penny she earns, including her allowance, how long will it take her to save enough to buy the sax? Will it be a short-, medium-, or long-term goal? Explain why. If she cannot save enough according to the present schedule, suggest some ways she could reach the goal.

3 Darnell works in his father's office on Mondays, Wednesdays, and Fridays and earns $75 a week. He saves $20 a week in his college fund, gives $5 a week to charity, and spends $8 a week on snacks and entertainment.

Recently Darnell became interested in golf, and he wants to become a better player. Golf lessons at a local park cost $300 and begin in six weeks. Is this a short-, medium-, or long-term goal? If Darnell continues his saving, spending and sharing habits, will he be able to save enough money in time to attend the first lesson? Explain why. If not, what could he change?



EXERCISE 6.2

Rolling for a Goal: A Game for Two or More Players

This game involves setting a saving goal, and trying to meet it. Two or more people can play the game. Before starting the game, the teacher will provide the game cards. Shuffle them and place them in a pile. You will need two dice, pencil, paper, and the score sheet on the next page. Choose a person to go first.

1 Draw a card from the pile. This is your saving goal. Write this amount on line A of the score sheet.

2 Throw one die and multiply the number on the die by $10. Write this amount as the amount you can save each month on line B.

3 Calculate how many months you'll have to save in order to reach your goal, and write the answer on line C. (line A ÷ line B)

4 Identify the goal as either short- (S), medium- (M), or long-term (L) and write on line D.

5 Roll two dice and multiply the two numbers to determine the number of months during which you will be able to save. Enter that number on line E.

6 Will you be able to reach your goal? Compare the number on line E with the one on line C. If E is greater than or equal to C, give yourself 2 points on line F; if not, give yourself 0 points on line F.

7 Play four rounds. Add the numbers in Column F. The person with the most points wins. If winning scores are tied, those players can play additional rounds until there is one winner.

Score Sheet for
Rolling for a Goal

	Game #1	Game #2	Game #3	Game #4
A Saving goal				
B Amount saved each month ($10 x roll of one die).				
C Number of months needed to meet goal (A ÷ B).				
D Short- (S), Medium- (M), or Long-term goal (L).				
E Number of months you will be able to save. (Roll of two dice multiplied together.)				
F Yes, I will be able to meet my saving goal. (Give yourself 2 points.) No, I will not be able to meet my saving goal. (0 points.)				
Totals				

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ASSESSMENT

6.1

Short-, Medium-, and Long-Term Goals

The chart below shows how much money six people want to save. Each person is able to save a different amount each month. Calculate how long each person must save to reach his/her goal. Then indicate by writing S, M, or L, if it is a short-, medium-, or long-term goal.

Person	Amount to be Saved	Amount Saved Each Month	How Many Months	How Many Years	Short-, Medium-, or Long-Term
Abby	$ 780.00	$20.00			
Ben	25.00	15.00			
Cherise	700.00	35.00			
Danuka	800.00	70.00			
Emilio	90.00	50.00			
Festis	2,900.00	75.00			

Complete the following exercise about Cherise based on what you calculated in the above grid.

Cherise saves $35 every month. It will take her _______ months to reach her saving goal of $700. During those months, she could be spending her money, but instead she sticks to her saving plan. That means that every month she gives up some goods or service that she could have bought with the $35 she is saving.

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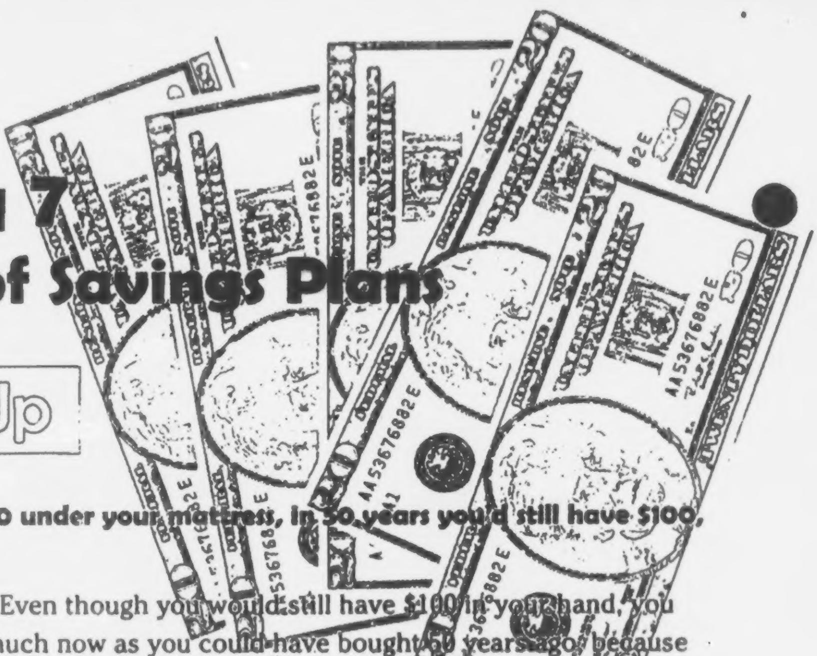
In the blanks below, list the opportunity costs Cherise might incur during the months she saves toward her goal. (Be creative. Think of opportunity costs that could be associated with the months. For example, in April her opportunity cost might be a new raincoat for April showers).

Month	Opportunity Cost	Explanation
January		
February		
March		
April		
May		
June		
July		
August		
September		
October		
November		
December		



LESSON 7
Types of Savings Plans

Warm-Up

If you saved $100 under your mattress, in 50 years you'd still have $100, right?

Well, yes and no. Even though you would still have $100 in your hand, you couldn't buy as much now as you could have bought 50 years ago, because things tend to get more expensive over time. After all, back in the 1950s you could see a movie for a quarter, and the price of a phone call was only five cents. Now things cost more. That's called *inflation*: a general increase in the prices of goods and services. In order to "keep up with inflation," people don't save their money under a mattress. They have a number of different options when it comes to saving. One option is a bank or another savings institution.

Most financial institutions offer a number of ways to save and to earn interest. In this lesson you will learn about some of them: regular savings accounts, money market deposit accounts, certificates of deposit (CDs), and United States Savings Bonds. All these savings plans offer safety and liquidity for your money, and they pay you interest, too. In addition, each has its own advantages and disadvantages. It's important to understand all the pros and cons when you choose where to save your money.

FITNESS VOCABULARY

Statement savings account – an interest-bearing account that can be opened with a small amount of money; funds can easily be deposited or withdrawn.

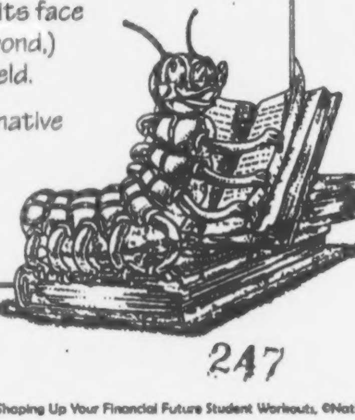
Money market account – an interest-bearing account that may require higher minimum balances than regular accounts. Deposits can be added at any time, but withdrawals may be limited without paying a penalty.

Certificate of deposit (CD) – an interest-bearing account that requires a higher minimum deposit and a higher minimum balance than regular accounts and has a specific time limit (6 months, 1 year, 5 years, etc.). If deposits are withdrawn before the specified time, there is a penalty.

United States Savings Bond – technically, a loan to the U.S. government upon which you earn interest. There are two major types of U.S. Savings Bonds. One kind (Series EE) can be purchased for half their face value; for example, a $100 bond costs $50. When the bonds mature they can be redeemed at face value. Another kind (Series I) is sold at its face value, (you would pay $100 for a $100 bond,) and earns interest over the time it is held.

Opportunity cost – the next-best alternative that is given up when a choice is made.

Inflation – a general increase in the prices of goods and services.



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Learn these ideas, practice them, and develop your financial fitness muscles.

MUSCLE DEVELOPERS

✔ Saving can help you get the things you want most.

✔ Because a savings account earns interest, it can help you keep pace with inflation.

✔ The U.S. government insures money in a regular savings account in most financial institutions. Your money is safe and secure, and it earns interest.

✔ Savers need to examine carefully the advantages and disadvantages of different savings options.

✔ Some options are better at different stages in your life.

✔ Many people make a habit of buying U.S. Savings Bonds. In fact, a lot of businesses offer a "payroll savings plan" that deducts a certain amount from every paycheck for the worker to automatically buy bonds.

✔ If you "cash in" a series EE bond before its maturity date, it will be worth less than its face value. You can find out how much a U.S. Savings Bond is worth by going to this web site: www.SAVINGSBONDS.GOV

✔ When you decide to save for the future, you have to give up some spending in the present. The thing you give up is your opportunity cost.

✔ Because of inflation, most goods and services cost more now than they did 50 or even 10 years ago. Inflation is usually expressed as a percentage. For example, if the inflation rate is 10% a year, a product that cost $100 last year will cost $110 this year. By saving money in interest-bearing accounts, the bad effects of inflation can be reduced.

Showing Your Strength

If you know the answers to these questions, you are developing some financial muscles.

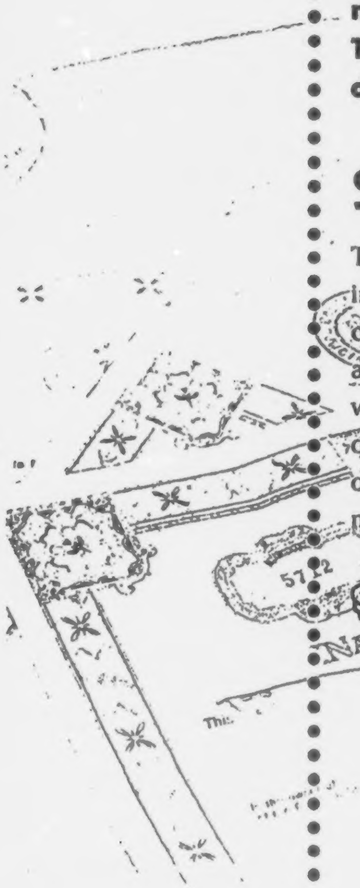
1 **What are the differences and similarities between a regular savings account and a CD?** *(Both are ways to save, and the U.S. government insures both, so they are very safe and secure. However, a regular savings account allows deposits and withdrawals at any time. A CD has a higher interest rate but has a time limit; if you want to withdraw money ahead of time, you will lose some of the earned interest.)*

2 **What's the opportunity cost of buying a $100 U.S. Savings Bond?** *(A $100 Series EE bond costs $50, so the opportunity cost is the next best alternative you could have bought for $50 instead of buying the bond.)*

EXERCISE 7.1

Types of Guaranteed Savings Instruments

All of the savings methods described here are guaranteed in most commercial banks, savings and loan associations, savings banks, and credit unions. This means you will not lose the money you have deposited. The U.S. federal government guarantees an individual's deposits up to $100,000 per banking institution through the Federal Deposit Insurance Corporation (FDIC). The National Credit Union Association (NCUA) has the same type of insurance for credit unions that the FDIC has for the other three institutions. The U.S. Savings Bonds are not guaranteed by any insurance; bonds are debts of the U.S. Treasury. The federal government, though, stands behind the payment of these debts so they are quite safe.



Savings Accounts

This is a traditional way to save money in a bank. As long as you keep money in your account, the bank pays you interest and your money grows. The most common kind of savings account is a **statement savings account**. For this account, the bank sends you a statement that details all of your deposits and withdrawals and the interest you've earned either once a month or once a quarter (every three months). Interest rates are usually lower than rates for other types of savings choices, but you can open an account with very little money. You can also withdraw your money whenever you like.

Savings Account **Advantages**

- Your money is easy to access; you do not have to leave it in the bank for a specific amount of time. You can withdraw it without any penalty.
- The interest rate paid on the deposit can increase as general interest rates increase.
- You can open the account with a small amount of money.

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Savings Account **Disadvantages**

- ▲ Traditional savings accounts pay lower interest rates than other saving plans.
- ▲ Interest rates can go down as general interest rates go down.
- ▲ The bank may charge a service fee if the account balance is below a certain minimum.

Certificates of Deposit

The Certificate of Deposit, also known as a CD, is a specific amount of money that you deposit in the bank for a specific amount of time. The time period may be 6 months to several years, and the interest rate you get is unchanged for that time. For example, you might put $500 in a CD for six months or one year. Generally, the longer the time you agree to, the higher the interest rate. If you withdraw the money before the agreed time, you lose some of the interest you have earned.

CD **Advantages**

- ▲ Banks pay higher interest for money invested in CDs than they do on traditional savings accounts at the time the CD is issued. Bankers know you probably will not withdraw your money for the agreed upon amount of time because of the penalty (lost interest) if you do.
- ▲ The locked-in interest rate can be advantageous if general interest rates go down during the time period of the CD.

CD **Disadvantages**

- ▲ You will pay a substantial penalty if you withdraw your money early.
- ▲ The locked-in interest rate can be disadvantageous if interest rates increase during the time period of the CD.
- ▲ Generally, a minimum, such as $500, is required to open a CD.

Money Market Deposit Account

Money market deposit accounts are similar to checking accounts, because you can write checks on money market deposit accounts. They are insured through the Federal Deposit Insurance Corporation, a government agency. Do not confuse money market *deposit* accounts with money market accounts (notice that the word "deposit" is missing from the latter.) Money market accounts contain investments that are not insured by the FDIC. Many of these are offered by a brokerage firm.

An increasing number of money market deposit accounts are combined with a statement checking account. The interest paid on these accounts could be less than a statement savings account, especially when there is no limitation on the number of checks written. In other cases, the interest rate may be higher than what is found on statement savings accounts. It varies from one financial institution to another.

Money Market Deposit Account **Advantages**

- ▲ Money market deposit accounts allow periodic withdrawals, just like traditional savings accounts, with no penalty. It is very convenient to be able to write a check to withdraw money from this kind of savings account.
- ▲ Interest paid on savings increases as the general interest rate for credit increases.
- ▲ Money market deposit accounts may pay a higher rate of interest than regular savings accounts.

Money Market Deposit Account **Disadvantages**

- ▲ Money market accounts require a significant minimum balance, often $1,000 or higher.
- ▲ The number of checks you can write without extra charges may be very limited.
- ▲ The interest rate goes down as the general interest rate goes down.
- ▲ The interest rate may be lower than a savings account.

United States Savings Bonds

Savings bonds are debt instruments (loans) issued by the United States Government. The person who buys the bond is the lender and the government is the borrower. Some savings bonds (Series EE) are purchased for one-half their face value and are later cashed at face value. Others (Series I) are purchased at face value.

U.S. Savings Bonds **Advantages**

- ▲ Savings bonds can be purchased for as little as $25 (a $50 series EE bond).
- ▲ Savings bonds generally pay a higher rate of interest than a savings account.

- ▲ Interest rates increase as the general interest rate increases.
- ▲ Savers may not have to pay state and local income taxes on interest earned on government savings bonds.
- ▲ Parents who use savings bonds for their child's college education also enjoy a tax advantage.

U.S. Savings Bonds **Disadvantages**

- ▲ There can be a penalty for withdrawal of money from the bonds before maturity. The penalty varies with the type of U. S. Savings Bond that is purchased and when it is redeemed. This means the saver will lose a certain amount of interest already earned.
- ▲ Interest rates of a savings bond can go down if general interest rates go down.

After you have read all about savings instruments, decide where you should put your savings in the following situations:

1 You have savings of $100 that you may need within two months.

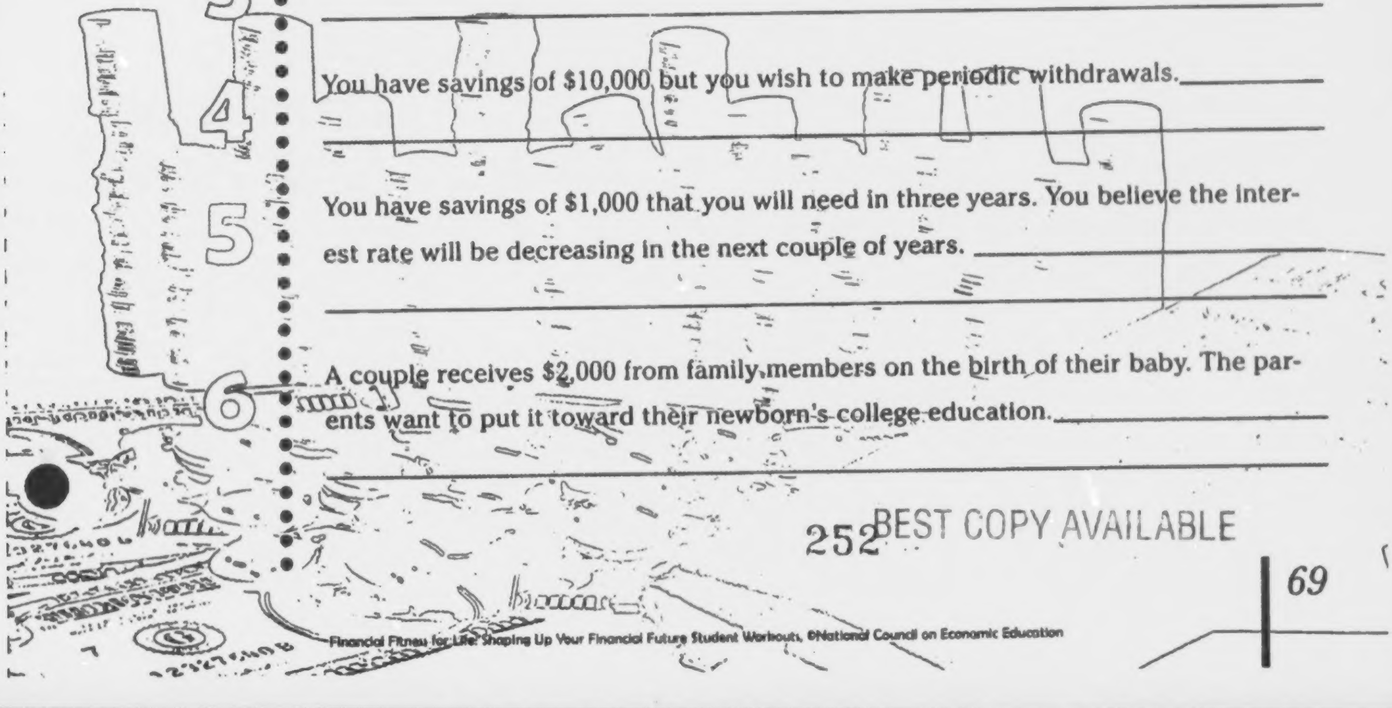
____

2 You have savings of $1,000 that you may need within three years.

____

3 You have savings of $1,000 that you may need within three months.

____



4 You have savings of $10,000 but you wish to make periodic withdrawals.__________

____

5 You have savings of $1,000 that you will need in three years. You believe the interest rate will be decreasing in the next couple of years. __________

____

6 A couple receives $2,000 from family members on the birth of their baby. The parents want to put it toward their newborn's college education.__________

____

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EXERCISE 7.2

Savings Plans in My Community

Saving instrument	Minimum balance or deposit	Interest rate	Penalty for withdrawal	Fees
Statement savings account				
6-month CD				
12-month CD				
24-month CD				
Money market deposit account				
U.S. Savings Bond Series EE				
U.S. Savings Bond Series I				

Name of bank or institution

Where did you get this information? *(For example, an interview of a bank representative, from the internet, or from a newspaper.)*

Are any of the accounts insured or bonds insured? If so, by whom and up to what amount?

ASSESSMENT

Types of Savings Plans

Match the best savings plan with the situation.

Options:

A Savings account

B Certificate of deposit

C Money market deposit account

D U.S. Savings Bond

Situations:

___ 1 Alfredo has $100 and wants to be able to withdraw it at any time without penalty.

___ 2 Willie is eight years old and wants to save the $25 he received for his birthday for college.

___ 3 Juanita is in college. She just inherited $5000 from Aunt Mildred. She will need it for college expenses beginning in two months.

___ 4 Garth has $10,000 in savings that he will not need for a while. He believes interest rates will be going down in the next year.

___ 5 Kari has $2000 in savings. She wants to earn the most interest possible before she needs it for college in five years. She believes that interest rates will increase in the next few years.

LESSON 8

Who Pays and Who Receives?

Warm-Up

A wise person once said, "You can work for your money, or you can let your money work for you." You work for your money when you get a job and begin to earn regular paychecks. Your money works for you when you save and invest it wisely.

Investing is a good idea because the money you save earns interest. Did you ever stop to think about how much interest you can earn on your savings?

In this lesson you will learn about saving, and about the effects of *simple and compound interest* on your investment. You'll use a quick formula, called *The Rule of 72*, to calculate how long it takes to double your money. Finally, you will find out that three things affect how hard your money can work for you:

- ▲ the amount you save
- ▲ the rate of interest
- ▲ the length of time you leave money in an account

As strange as it may seem, banks are businesses—just as grocery stores, gas stations and theaters are businesses. Every business wants to please its customers and earn a profit. Without a profit, a company will lose money and have to shut down.

Banks earn profits by lending money to borrowers. The borrowers have to pay a price for the loan; that price is called *interest*.

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Where do banks get the money they lend to borrowers? That's where you come in. Based in part on the amount of deposits you and others make, banks earn money by making loans of this money to borrowers. These loans are used by the borrowers to buy cars and houses, or machines and buildings for new businesses. The bank is paid interest from its borrowers, and in turn, the bank pays you interest for using your deposited money.

In order to make a profit, the bank charges more interest to borrowers than it pays to savers. For example, borrowers might pay 8% interest, and savers might earn 5% interest. The difference is the bank's *markup*. The bank uses its markup to pay its employees, buy computers, and pay other expenses of the firm. The bank's return for taking a risk—its profit—is also part of the markup. Banking, like other enterprises, can be a risky business; after all, customers might default on a loan, which means the customer does not repay the loan. An understanding of banks and interest is important; it can help you make wise saving and investing decisions now and in the future.

FITNESS VOCABULARY

Interest – The price paid for using someone else's money.

Interest rate – The price paid for using someone else's money, expressed as a percentage.

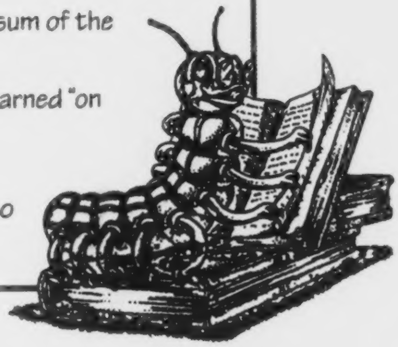
Principal – Amount deposited in savings without including interest earned.

Simple interest – Interest earned on the principal and paid out to a depositor.

Compound interest – Interest computed on the sum of the principal and previously earned interest.

Compounding – The practice of leaving interest earned "on deposit" so that it too earns interest.

Rule of 72 – A formula that can be used to calculate how long it takes for invested money to double.



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MUSCLE DEVELOPERS

Learn these ideas, practice them, and develop your financial fitness muscles.

- ✓ Banks and other financial institutions bring savers and borrowers together.
- ✓ Savers provide money for borrowers, and some of the interest that borrowers pay is used to pay interest to savers.
- ✓ Banks and other financial institutions earn profits by charging higher interest to borrowers than they pay to savers.
- ✓ Interest can be simple or compound.
- ✓ Money grows more rapidly if interest is compounded.
- ✓ Understanding the effects of compound interest can help people make wise decisions about saving.

Showing Your Strength

If you know the answers to these questions, you are developing some financial muscle.

1 **Why do banks and other financial institutions charge higher interest rates to borrowers than they pay to savers?** *(Banks are businesses that have expenses and want to make a profit. The difference between the interest earned by loaning money to borrowers, and interest paid to depositors, pays the expenses and provides profit.)*

2 **What is the difference between simple and compound interest?** *(Simple interest is paid to a depositor when it is earned. Compound interest is left on deposit with the principal so that it too earns interest. With compound interest, the saver is earning interest on the principal plus interest on the interest.)*

3 **What factors, other than compounding, affect the extent to which money grows in a savings account?** *(Three factors are involved: the amount of money saved, the interest rate, and the length of time savings are left on deposit.)*

4 **What is the Rule of 72?** *(The Rule of 72 is a formula that can be used to calculate how long it takes for invested money to double. Divide 72 by the interest rate to find out how many years it will take for your money to double.)*

EXERCISE
8.1A

Simple Interest

The Simple Interest Group will use this form. Your teacher will demonstrate how to complete the form.

A	B	C	D	E	F	G
Deposit Cycle	**Beginning Balance (G) from previous line**	**Deposited Amount**	**New Balance (B) + (C)**	**Rate of Interest**	**Interest earned and paid out (D) x (E)**	**Ending Balance (Same as D)**
1	0	10	10	20%	2	10
2		10		20%		
3		10		20%		
4		10		20%		
5		10		20%		
6		10		20%		
Total						

EXERCISE 8.1B

Compound Interest

The Compound Interest Group will use this form. Your teacher will demonstrate how to complete the form.

Round decimals to the next closest whole number.

A	B	C	D	E	F	G
Deposit Cycle	Beginning Balance (G) from previous line	Deposited Amount	New Balance (B) + (C)	Rate of Interest	Interest earned and left in acct. (D) x (E)	Ending Balance (D) + (F)
1	0	10	10	20%	2	12
2		10		20%		
3		10		20%		
4		10		20%		
5		10		20%		
6		10		20%		
Total						

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8.2

Simple Interest: When and Why Would People Choose It?

Ms. Wirtz is a magazine editor who retired at the age of 55. She has $60,000 in an account that earns 6 percent interest annually. Because she needs the interest for some of her living expenses, Ms. Wirtz has arranged to receive an interest check from the bank every quarter (four times a year). In this way, she has money to live on, and her $60,000 principal doesn't decrease. What is the amount Ms. Wirtz receives every quarter?

The formula below shows how to calculate her simple interest and quarterly interest payments.

Principal × Annual Interest Rate × Time = Simple Interest ÷ 4 = Quarterly Payment

Ms. Wirtz' annual interest and quarterly payment are shown in the first line of the grid on this page. Use the formula to help you calculate simple interest, interest rate, principal, and quarterly payments in the rest of the grid and fill in the blank spaces.

Principal	×	Interest Rate	×	Time	=	Simple Interest	÷ 4 =	Quarterly Payment
$60,000	×	6%	×	1 Year	=	$3,600	÷ 4 =	$900
$20,000	×	5%	×	1 Year	=		÷ 4 =	
	×	10%	×	1 Year	=	$1,000	÷ 4 =	
$80,000	×		×	1 Year	=	$5,600	÷ 4 =	
$75,000	×	9%	×	1 Year	=		÷ 4 =	
$125,000	×	8%	×	1 Year	=		÷ 4 =	
$200,000	×		×	1 Year	=	$14,000	÷ 4 =	
$40,000	×		×	1 Year	=		÷ 4 =	$500
	×	4%	×	1 Year	=		÷ 4 =	$1,000
$100,000	×		×	1 Year	=		÷ 4 =	$2,500

NOTE: People who hold certain kinds of interest-earning accounts, such as certificates of deposit, can have payments sent to them quarterly. That way they can use their interest for daily living expenses, travel, or other purchases. Even though they spend the interest, they maintain the principal.

EXERCISE 8.3

Racing Toward a Goal

Eight members of the Slug Hill Stock Car Team have challenged each other to begin a saving plan. They know that by making annual deposits and not withdrawing any money, their interest will compound and they will reach their goals. They also know that three things affect how their savings will grow:

- ▲ How much they deposit
- ▲ What the interest rate is
- ▲ How long the money remains on deposit

Even though they will all reach their goals, they will not do so at the same time. Select one of the drivers and figure out how long it will take the driver to reach the goal. Compare your results with those of other team (class) members to determine the order in which the drivers reach the finish line. Use the following charts to calculate how long it will take your driver to reach his/her goal.

Enter your results in the list below:

1st Place ____________________
2nd Place ____________________
3rd Place ____________________
4th Place ____________________
5th Place ____________________
6th Place ____________________
7th Place ____________________
8th Place ____________________

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Calculate how long it will take your driver to reach the finish line and reach his or her goal.

Fill in the box at the bottom of this page.

DRIVER A
Annual Deposit = $2,000
Rate of Return = 6%
Goal = $40,000

DRIVER B
Annual Deposit = $2,000
Rate of Return = 10%
Goal = $29,000

DRIVER C
Annual Deposit = $3,000
Rate of Return = 6%
Goal = $41,000

DRIVER D
Annual Deposit = $3,000
Rate of Return = 10%
Goal = $61,000

DRIVER E
Annual Deposit = $4,000
Rate of Return = 6%
Goal = $35,000

DRIVER F
Annual Deposit = $4,000
Rate of Return = 10%
Goal = $26,000

DRIVER G
Annual Deposit = $5,000
Rate of Return = 6%
Goal = $52,000

DRIVER H
Annual Deposit = $5,000
Rate of Return = 10%
Goal = $42,000

Driver ______ **wants to save $** ______
(insert letter)

It will take ______ **years**
to achieve the goal.

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Calculation Sheet for Racing Toward a Goal*

A	B	C	D	E	F	G
Year	Beginning Balance (column G of previous year)	Annual Deposit (from box)	New Balance (B + C)	Interest Rate (from box)	Interest Earned (D X E)	Ending Balance (D + F)
1	$0.00					
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						

** Round cents to the closest whole number.*

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EXERCISE 8.4

Checking Out the Rule of 72: Does It Work?

The Rule of 72 is a way of calculating how long it takes for money to double. Test how accurate the Rule of 72 is by completing the following exercise.

The formula for the Rule of 72 is to divide 72 by the interest rate. This gives you the number of years it takes to double an investment earning that interest rate.

Begin with $100,000. With a partner and an on-line calculator, figure out when money doubles at these interest rates: 2%, 3%, 4%, 6%, 8%, 9% and 12%.

Use this web site, or a similar one:

http://www.1728.com/compint.htm

Then follow these procedures:

Solve for YEARS

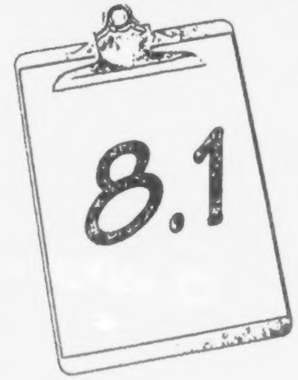
Input *principal:*	100,000
Input *total:*	200,000 (double the principal)
Input *rate:*	(do NOT use decimals)
Click on CALCULATE	

You will get an answer in years.

Does the number of years multiplied by the interest rate equal about 72? Complete this form using the calculator on the web site.

A	B	C	D	E
Principal	Double the Principal	Interest Rate Percentage	No. of Years for money to double (from Web Calculator)	Does Column C × Column D = approximately 72?
$100,000	$200,000	2		
$100,000	$200,000	3		
$100,000	$200,000	4		
$100,000	$200,000	6		
$100,000	$200,000	8		
$100,000	$200,000	9		
$100,000	$200,000	12		

ASSESSMENT



Factors That Affect How Money Grows

Three factors affect how money grows in an account:

- ▲ Amount of deposit
- ▲ Interest rate
- ▲ Length of time the money remains on deposit

Demonstrate these three factors by completing the grid. When you finish, make a generalization about the three factors that affect how money grows.

Beginning values:
Amount $5,000
Interest rate 5%
Time .... 5 years

Change only the amount:
Amount $10,000
Interest rate 5%
Time .... 5 years

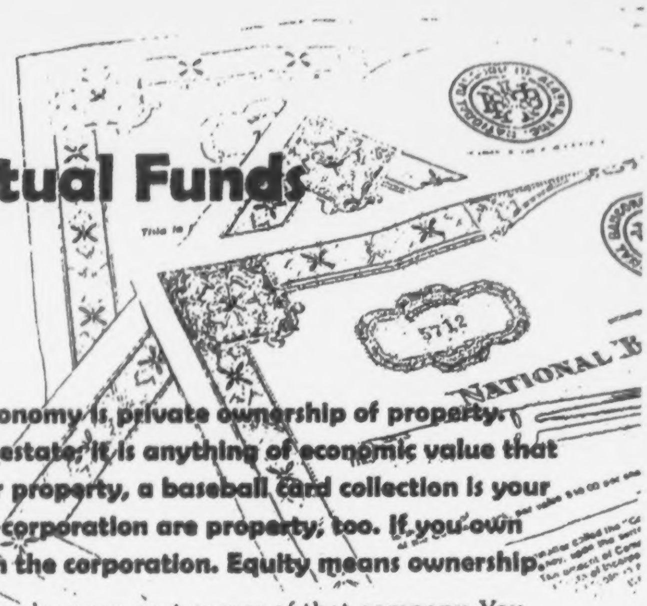
Change only the interest rate:
Amount $5,000
Interest rate 10%
Time .... 5 years

Change only the time:
Amount $5,000
Interest rate 5%
Time .... 10 years

Year	Year Start Balance	Interest Rate	Interest Earned	Year End Balance
1	$5,000	5%		
2		5%		
3		5%		
4		5%		
5		5%		
1	$10,000	5%		
2		5%		
3		5%		
4		5%		
5		5%		
1	$5,000	10%		
2		10%		
3		10%		
4		10%		
5		5%		
1	$5,000	5%		
2		5%		
3		5%		
4		5%		
5		5%		
6		5%		
7		5%		
8		5%		
9		5%		
10		5%		

LESSON 9

Stocks and Mutual Funds



Warm-Up

One characteristic of a market economy is private ownership of property. Property is not just land and real estate; it is anything of economic value that belongs to you. Your stereo is your property, a baseball card collection is your property, and shares of stock in a corporation are property, too. If you own shares of stock, you have equity in the corporation. Equity means ownership.

By owning stock in a corporation, you become part owner of that company. You can earn dividends, which are profits of the company. You can also earn a capital gain when you buy shares of stock at a low price and sell at a higher price. Your shares of stock are called *equities*.

The shares that you and other people own are generally not purchased directly from the corporation issuing them. The corporation sells a large amount of its shares to an investment banking firm in what is called an *initial public offering (IPO)*. This exchange takes place in the *primary market*. The investment firm then sells those shares to its best customers ("friends and family") in the *secondary market*.

FITNESS VOCABULARY

Capital gain – Gain from selling stocks or other investments for more than what was paid for them.

Capital loss – Loss from selling stocks or other investments for less than what was paid for them.

Dividend – Periodic payment of profit of a corporation to its stockholders or owners.

Equity – The value of property that is owned, including shares of stocks in a corporation.

Stock – A share of ownership in a company.

Primary market – Investment banks buy shares of stock directly from corporations that issue them. The stocks, in turn, are sold by the investment bankers to others.

Secondary market – Markets where stocks are bought and sold after being issued.

Stock market – Where shares of stocks are bought or sold (can be a specific, physical place or on the Internet).

Corporate bond – A loan by an investor to the corporation; the means used by corporations to raise needed money.

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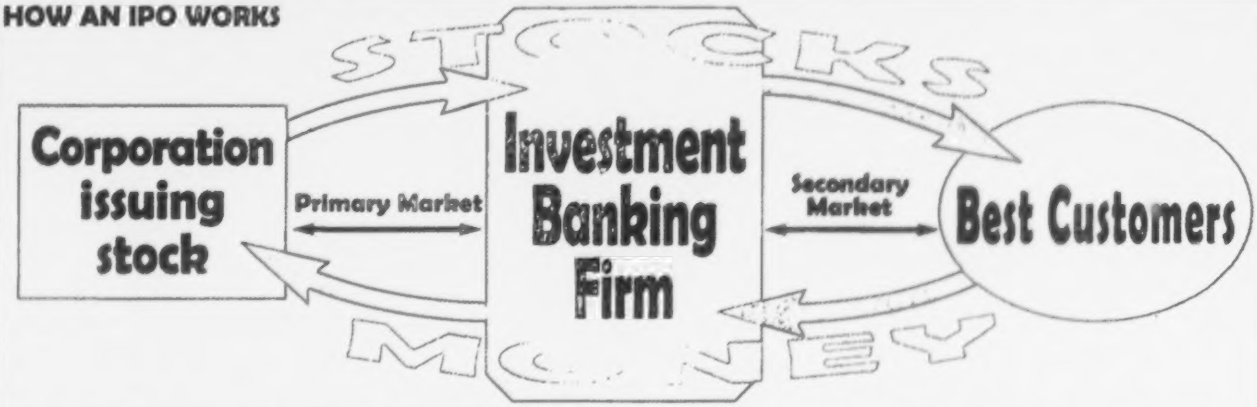
HOW AN IPO WORKS


STOCKS
Corporation issuing stock
Primary Market
Investment Banking Firm
Secondary Market
Best Customers
MONEY

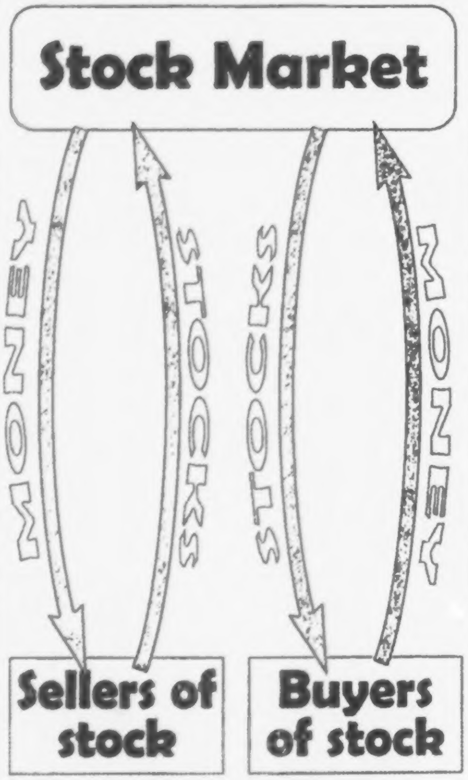
Notice that the corporation issuing stock receives money for its *initial public offering (IPO)* from the investment banking firm. This is the *Primary Market. The sale of this stock to its best customers takes place in the secondary market*

Stock exchanges provide a service. The service is to bring together people who want to buy or sell stocks. Stock exchanges "make a market" in specific stocks, just as a grocery market sells only certain brands of a good. This is also part of the secondary market.

There is no guarantee that your investment will be successful. As an owner of stocks, you have some say about how the corporation should be run. You also get to share in the profits that are made. But there is no guarantee that the corporation in which you are an owner will be successful. If the corporation does not make a profit, there is no built-in safety net or insurance to reimburse you for your losses.

Then why do so many people—now more than 50% of Americans—invest in the stock market? Many people choose to invest more of their money in the stock market rather than putting it into CDs, money market deposit accounts, statement savings accounts or U.S. Savings Bonds. People invest in the stock market because of the possibility of earning a better return.

MOST STOCK TRADES IN THE SECONDARY MARKET AFTER AN IPO


Stock Market
MONEY
STOCKS
STOCKS
MONEY
Sellers of stock
Buyers of stock

Notice that the money flow goes from the buyer to the seller of the stock, not to the business that offered the stock in the primary market.

To reduce the risk of loss, many investors follow a plan to *diversify* their holdings. Investors put their saving dollars into different kinds of investments so that possible losses in one kind are balanced by gains in another. For example, an investor might hold a combination of technology, health care and service industry stocks. They might also choose "blue chip" stocks as well as unproven, new, growth industry stocks. *Mutual funds* are based on the idea of diversification. A mutual fund company uses investor money to buy a variety of stocks. Small investors can thus invest in a greater number and kinds of stock than if they were to buy individually. The investor gains or loses based on the total fund's performance—the gains and losses of the individual stocks in the fund.

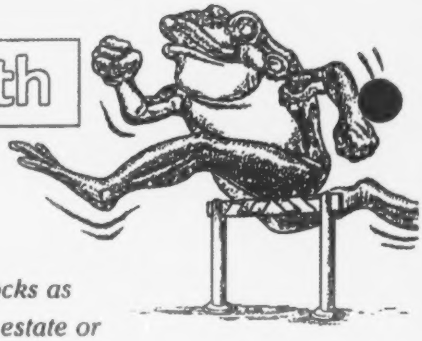
Someday, you will probably invest some of your income in the stock market. Maybe, you already do. When you invest in stock, you will be part owner of a corporation. The equity, or ownership, in the company will grow if the firm is successful. Your investment will increase in value as you share in the profits of the firm.

MUSCLE DEVELOPERS

Learn these ideas, practice them, and develop your financial fitness muscles.

- ✓ Stocks are riskier investments than bonds or other saving plans, such as certificate of deposits and savings accounts.
- ✓ Higher risk investments are not guaranteed but might produce big profits if the corporation does well.
- ✓ Stocks of corporations with a long history of success and a strong potential for continued growth are called "blue chip" stocks.
- ✓ A stock exchange makes it easy to buy and sell stock by bringing buyers and sellers together (either by phone or via the Internet).
- ✓ A corporation 'goes public' when it sells shares of its own stock in the primary market. The corporation raises money through this offering.
- ✓ After the initial public offering (IPO) of stock, those same stocks are bought and sold by investors in the secondary market. The corporation gets no money from sales in the secondary market.
- ✓ Investors in stock earn a return on their investment through dividends (distribution of profits) as well as capital gains (selling stocks for more than the purchase price).
- ✓ Diversification is a big word that means that a lot of different kinds of investments or stocks are held. Investors diversify to reduce their risk of loss.
- ✓ One reason that investors buy mutual funds is to gain more diversification of their portfolio.

Showing Your Strength



If you know the answers to these questions, you are developing some financial muscle.

1 **What are equities?** *(Most people refer to shares of stocks as equities, but people can also own equity through real estate or through owning their own business.)*

2 **What is meant by "buy low; sell high"?** *(When people buy stock, they hope to make a profit. In order to do this, they have to sell the stock at a higher price than the price at which they bought it. For example, if you buy 10 shares of ABC Corporation at $100 a share, and you sell it at $200 a share, you'll make a profit of a little less than a $1,000 after the deduction of a commission or fee.)*

3 **When investors buy shares of XYZ stock, do they buy it from the XYZ Corporation?** *(No. When XYZ Corporation decides to sell shares of its stock to the public, it sells those shares in the primary market — only to investment bankers.)*

4 **What is the secondary market?** *(It is where stocks are bought and sold by the public after being issued. The New York Stock Exchange, the American Stock Exchange and the NASDAQ are secondary markets.)*

5 **Why is investing in companies important?** *(When people invest in shares of a corporation, they are demonstrating their confidence in the corporation's future success. When corporations are successful, they are able to generate profits, expand operations, hire more workers, pay more taxes, disburse more dividends to the corporation's shareholders and improve the standard of living.)*

6 **What are some differences between stocks and bonds and other savings instruments offered by financial institutions?** *(Stocks show ownership; bonds and savings plans show debt. Dividends are paid to owners; interest is paid to bondholders and to those with savings plans.)*

7 **How do stockholders earn a return on their investment?** *(Through dividends and through capital gains, which is the difference between the sale and purchase price of the stocks.)*

8 **How can stockholders cut down on their risk in their stock investment?** *(Buy blue-chip stocks that carry less risk; diversify one's portfolio to include various stocks and a combination of equities and debt instruments; buy mutual funds.)*

EXERCISE 9.1

An Interview with Mr. Stock

Role-play this interview with Mr. Stock. After hearing the interview, answer the questions that follow.

Interviewer: Hey, where are you going, Mr. Stock?

Mr. Stock: I'm on my way to a new owner. I've just been sold.

Interviewer: What do you mean—you've just been sold?

Mr. Stock: Well, you see I indicate ownership in a *corporation*—not a sole proprietorship or a partnership. A corporation is a legal entity—like a person—permitted by government. Each corporation issues stocks initially to raise money in order to pay for the things the corporation needs to make a profit—like equipment, buildings, and money to start the business. Each investor who owns one or more shares in a business is one of the owners. Some large companies have millions of owners because they have a lot of stocks and there are many investors that own those stocks.

Interviewer: Where are you bought and sold?

Mr. Stock: It depends. When I was initially issued, my corporation sold me to an investment brokerage firm. This is a place that specializes in issuing new stock. The investment brokerage paid money to my firm for me. Then the investment brokerage firm sold me to investors. I have been sold many times since I was born—mainly through the New York Stock Exchange. I am a stock of a major corporation listed on that exchange so I can be bought and sold in that place on Wall Street in New York City. Every stock cannot be traded there—only those that are listed on the exchange.

Interviewer: When you were sold on the New York Stock Exchange, your corporation must have made a lot more money.

270

Mr. Stock: Oh no, that money went to the investors who owned the stock and wanted to sell it. The money from the sale of stock goes to the firm only when it is initially sold. After that, the sales of stock involve transferring money from the buyer of the stock to the seller.

Interviewer: You mentioned that only stocks listed on the stock exchange may be traded. Does that mean that owners of stocks not listed on that exchange have no place where they can sell their stocks?

Mr. Stock: No. There are other exchanges, such as the American Stock Exchange, where stocks are bought and sold. There are also computer exchanges where the buy-and-sell orders for stocks are processed electronically. And with some stocks, there are several places where the stocks of any company are traded.

One of these is the NASDAQ market. Now, this gets confusing, so listen carefully. The NASDAQ market is really one or more brokerage houses who *make a market* in a particular stock. Making a market means that the brokerage house is the contact point for buyers and sellers who want to trade a particular stock. Each of these brokerage houses, which makes a market in a particular stock, indicates to a centralized location through its computers, the price and number of shares traded so that other people know what is going on. So the NASDAQ is not just one stock exchange like the New York or American, but lots of places all over—all keeping those computer lines humming.

And then with very small corporations, owners sell their shares to others by advertising in some way that they are for sale.

Interviewer: That sounds very complicated. Why do individuals buy you and other stocks?

Mr. Stock: The process is really quite easy. Besides, investors think I can be *very* handsome, not in the way that you might think. Many people want to become handsomely rich through buying stocks. When people buy stocks, they become owners and can share in the profits. If the firm is very profitable, it can make the owners rich. But keep in mind that there is a downside to buying stocks—there is considerable risk. If the business does not do well, the stockholders may not get any profit. They may also lose all of their investment if the corporation goes under.

Interviewer: Isn't that a bit iffy and scary?

Mr. Stock: Sure is. But many individuals are willing to do it because they have a greater opportunity to earn higher returns than they could with some other kinds of investments, such as savings accounts, certificates of deposits, money market deposit accounts and even U.S. Savings Bonds. It's a matter of how much risk you want to take.

Interviewer: So what's the difference between you and those other types of investments that you mentioned?

Mr. Stock: Stock is equity or ownership in a corporation. Bonds and savings plans are debt, not ownership. With debt, there is generally more security with your investment. The investor or saver is promised interest at certain times and a return of the loan. If the promises are not kept, the investor or saver can take legal action against the debtor to get the money. Remember, people who own me are not promised an annual return or that their investment will be returned.

Interviewer: Have any of your stock friends died?

Mr. Stock: Oh, yes. When a corporation folds, stocks die too. This could happen if they are taken over by another company or if they go out of business.

Interviewer: What is the average life of a stock?

Mr. Stock: Hard to say. Some of us live on for a very long period of time...many 'people' lifetimes. If an owner of stock dies, the stock does not die and it can be sold to someone else or inherited because the corporation still exists. Well, I must be going to my new owner. I hope I can get some rest with this new owner. This moving around is very tiring.

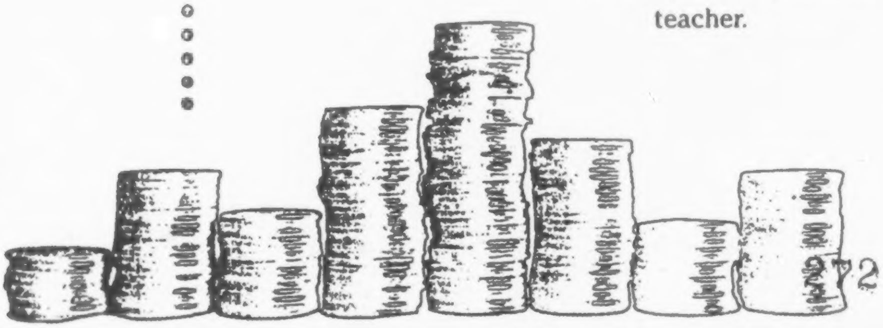
Interviewer: Before you go, I would like to ask one more question. Why don't your owners keep you a long time?

Mr. Stock: Some of them do. They keep me for years. I get to know them pretty well. Others get rid of me because they think they can get a better return on their money with some other type of investment. They sell me and buy something else. Others need the money to buy something like a car, house, etc. They particularly like to sell me when they have made some money on me.

Interviewer: How do stockholders make money on their stocks?

Mr. Stock: One important way is to sell the stock for more than they paid for it. Another way is when they receive dividends, which may be paid by the corporation. Dividends are the sharing of profit. Some corporations share some of their profit; others put the profits back into the business—the stocks generally increase in value because of that.

Oh, I must go before my owner gets annoyed. If you have any other questions about stock, ask your teacher.



Questions to Answer

a. What is a stock?

b. When do firms receive money from a stock?

c. Where are stocks traded?

d. What are the advantages and disadvantages of owning stocks?

e. How do stockholders gain a return?

f. What is the difference between owning stocks and owning bonds or savings accounts?

g. Why are stocks generally riskier than bonds?

h. Considering that there is generally more risk in stocks than bonds or savings instruments, why do investors still put money into stocks?

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EXERCISE 9.2

Juanita's Decisions

Read the following case problem and answer the questions that follow.

Juanita was very impressed with the design of the clothes manufactured by the Trendy Design Company. At the beginning of the year, she bought $3,000 worth of stock in the firm as well as a $10,000 bond of the same corporation that paid an 8 percent interest.

During the year, she was paid $200 in interest on the bond, which is about 83 percent of the amount she should have received. She did not receive any dividends on her stock investment in the firm. She was surprised to learn at the end of the year that the firm was having so much difficulty making money that they needed to liquidate the business. This means the corporation must sell their possessions in order to pay back its creditors and owners.

After the liquidation, Juanita received $2,500 for her bonds, which was her share of the proceeds. She received nothing for her stocks and no dividends.

Please answer the following questions:

1 As shown through this case, who gets paid first—owners or creditors—when the firm is liquidated? ____________________

2 Which investment was more risky for Juanita?

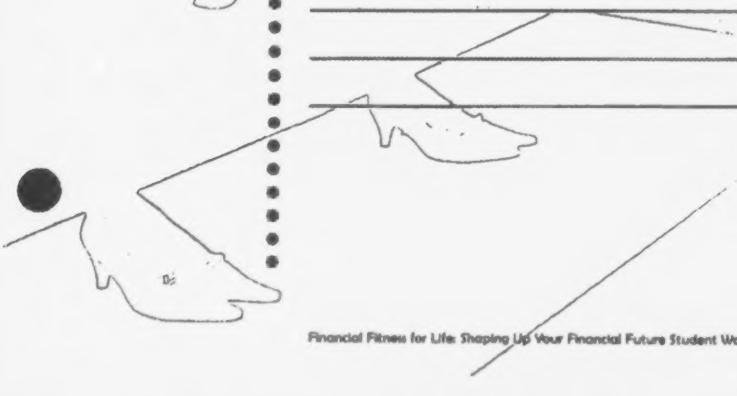
____

3 Do you think that all stocks are riskier than all bonds? Why or why not?

____

____

____



LESSON 10

Let Lenders and Borrowers Be

Warm-Up

Buying a gallon of milk is a pretty straightforward exchange. You walk into a store, grab a plastic jug, pay the cashier, and you're on your way. Saving, borrowing—and even investing—are a bit like buying products at a grocery store.

A bank, credit union, or other financial institution can be thought of as a supermarket. It brings a number of products together in one place so that buyers don't have to shop all over town for what they want. At a bank, consumers can cash a check, deposit money, apply for a loan, purchase a certificate of deposit, or get investment advice. Many goods and services are provided by banks and other financial institutions.

One of the most important roles of a financial institution is to act as an intermediary. Intermediaries bring together those who are in need of funds and those who wish to invest. For example, when a new company is just getting off the ground, it needs funding—for materials, equipment and supplies, maybe even to hire more workers.

Somewhere out there are investors looking for an opportunity. Often it is through a financial institution that the start-up company and the investor are brought together. The company finds its funder, and the investor finds an opportunity.

In this lesson, you will learn how banks, credit unions, mutual funds and other financial institutions act as intermediaries, bringing together savers, borrowers, and investors. This information will give you food for thought as you begin to make investment decisions on your own.

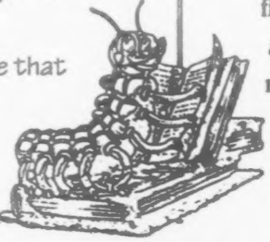
FITNESS VOCABULARY

Financial intermediaries – Banks, credit unions, pension funds, insurance companies, mutual funds and other other financial institutions acting to bring together savers and borrowers as well as buyers and sellers of stock.

Institutional investors – A type of financial intermediary, such as a pension fund or mutual fund, who buys stocks and other investments for clients with the goal of making money.

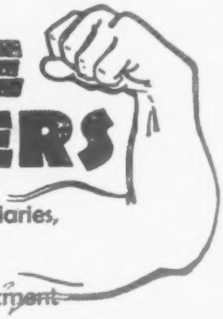
Opportunity cost – The next-best alternative that is given up when a choice is made.

Mutual Fund – A group that pools investor money to purchase a variety of stocks.



Learn these ideas, practice them, and develop your financial fitness muscles.

MUSCLE DEVELOPERS



- ✓ Banks, credit unions, stock exchanges, and other financial institutions act as intermediaries, bringing together savers and borrowers, as well as buyers and sellers of equities.
- ✓ Investors help businesses grow. Financial institutions help investors find the right investment opportunities.
- ✓ Interest rates paid on loans and deposits are established by supply and demand.
- ✓ Financial intermediaries can provide a number of investment options.
- ✓ People save their money in low or non-risk investments for several reasons: they don't know enough about other forms of investing; they prefer the liquidity of a savings account; they don't want to pay the cost of a broker; they may not have enough available income to purchase the minimum denomination of stocks or bonds.
- ✓ Mutual funds bring together money from investors that the mutual fund company then invests in a diversified portfolio.
- ✓ Insurance companies and pension funds are financial intermediaries: they collect premiums and invest them in diversified portfolios.

Showing Your Strength

If you know the answers to these questions, you are developing some financial muscle.

1 **How do banks, credit unions, mutual funds, and other financial institutions act as intermediaries?** *(They provide different types of accounts for savers and investors. They attract borrowers, savers, buyers, and sellers and thus these institutions bring together those who have funds and those who want them.)*

2 **Why is a stock mutual fund considered a financial intermediary?** *(Mutual funds provide a means by which investors can own portions of the stock of many different companies. The fund brings together investors and investment opportunities.)*

3 **Why are intermediaries important to the economy?** *(Without intermediaries, investors would find it difficult to locate opportunities for investment. And without intermediaries, those in need of funds might be unable to access them.)*

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EXERCISE 10.1

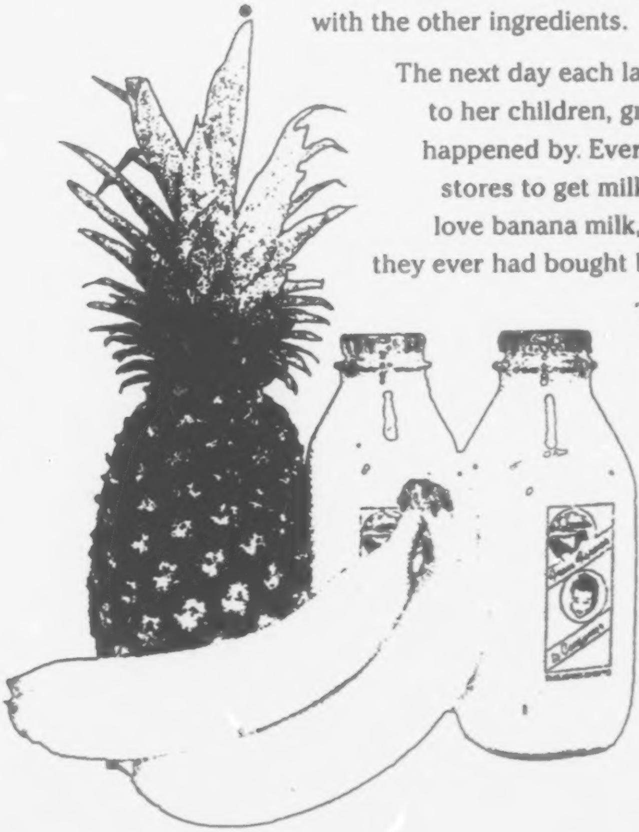
Calamity in Cow Town

Read the story below and answer the questions that follow.

Every town has at least one grocery store. In Cow Town, there are three large supermarkets. For the most part, all three markets get their groceries from the same food brokers and pay similar prices for the items they sell. This includes the milk that each market sells.

In the summer of 1982, Mrs. Jones created a new drink to serve her bridge club. She mixed milk, bananas, and pineapple juice together and called it banana milk. The ladies in the club couldn't get enough of the banana milk, and the eight ladies went through five gallons of milk, six pounds of bananas, and two gallons of pineapple juice that day. They each asked for the recipe and, on the way home from Mrs. Jones's house, they each bought two gallons of milk, along with the other ingredients.

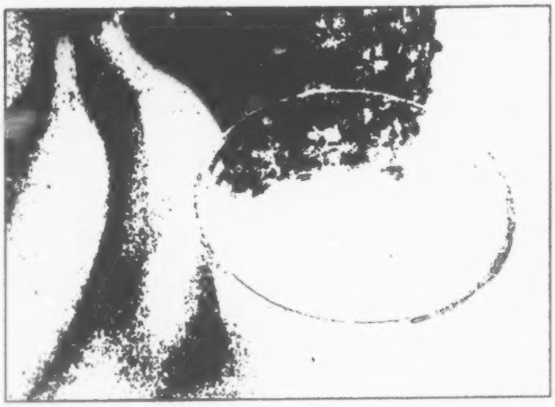
The next day each lady made up a batch of banana milk and served it to her children, grandchildren, the neighbors, and anyone else who happened by. Everyone loved the stuff and headed for the grocery stores to get milk. Day after day, more people came to know and love banana milk, and, day after day, people bought more milk than they ever had bought before.



The grocers in Cow Town would place the usual amount of milk on the shelves in the morning, and it would be gone by midafternoon. Then it was gone by noon. Then it was gone by midmorning. Finally, the grocers were simply handing the milk to the awaiting hordes early in the morning. The grocers tried to get more milk, but there were only so many cows in Cow Town.

What could the grocers do to reduce the frenzy? There was only one answer. Each grocer raised the price on the milk. First, they raised their prices by ten cents a gallon. Then 20 cents. Then 30 cents. As they raised the price, they sold fewer and fewer gallons until, one day, the milk was actually on the shelf the whole day before the last gallon was grabbed.

Yes, in the summer of 1982, the people of Cow Town learned a lesson in supply and demand. What happened to the people of Cow Town who cut their milk consumption because of the higher price? They drank orange juice instead.



Questions to Answer

1. **What happened with the demand for milk in the story? Why?**

____

____

2. **What happened with the supply of milk in the story? Why?**

____

____

3. **What happened to the price of milk in the story? Why?**

____

____

4. **What do you think happened to the prices of bananas and pineapple juice?**

____

____

5. **If you were one of the dairy farmers in Cow Town, and the price of milk went up, what changes might you have made on your farm?**

____

____

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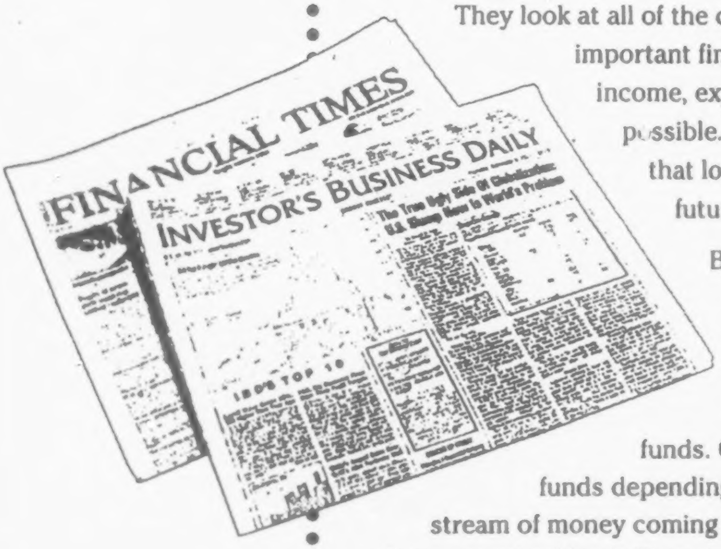
READING 10.1

Meet Me at the Stock Market

The stock market operates through financial intermediaries, such as the stock markets and stock brokers. Institutional investors are another type of financial intermediary. Examples of institutional investors are brokerage firms, pension funds, and mutual funds. They buy stocks and other investments for their clients, and their goal is to help their clients make money.

Institutional investment firms have workers who investigate corporations. They look at all of the company's business documents and check all the important financial information of the corporation, such as its income, expenses, and how it invests to make future growth possible. When institutional investors find a corporation that looks like it's going to be more profitable in the future, they buy stock in the corporation.



Brokerage firms buy stocks and bonds for their clients. Pension funds buy stocks, bonds, and mutual funds to hold for their clients' retirements. Mutual funds put together packages of stocks and bonds, organizing them into different funds. Clients can choose to buy shares in the different funds depending on their goals. If clients want to have a steady stream of money coming in without a lot of risk, they will want to invest in an income mutual fund. There is never a guarantee of no loss, but the mutual fund managers who design the income fund will do their very best to choose a package of stocks that is likely to steadily provide income.

Some clients may be willing to risk losing some of their money in exchange for the possibility of earning a higher return. In this case, the mutual fund managers put together a package containing stocks in new companies or companies with new products. This kind of fund is called a "growth fund." If these companies become very successful, the rewards for owning shares in this fund will be great. On the other hand, if the companies go out of business, or if there is very little demand for the new products, the price of shares in the fund will go down, and the client will either lose or have very little growth in the investment.

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ASSESSMENT

Financial Terms

Match the terms with their descriptions.

1. *The party who brings together those who need funds with those who have funds.*

2. *The next-best alternative when a decision is made.*

3. *The group who buys stocks, bonds, and mutual funds for the clients' retirement plans.*

4. *The difference between revenues and costs.*

5. *The costs of doing business.*

6. *Group such as a mutual fund.*

7. *The supplier of funds for loans.*

8. *The demander of loans.*

9. *The price of money.*

a. *saver*

b. *profit*

c. *institutional investor*

d. *opportunity cost*

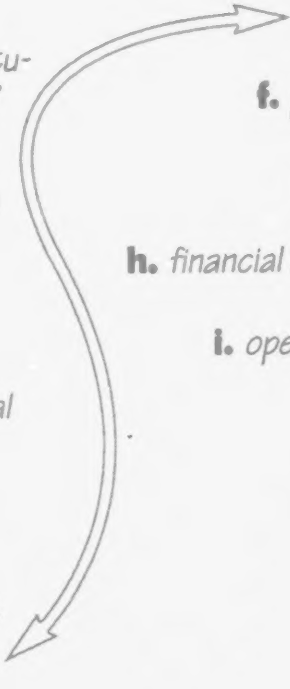
e. *interest*

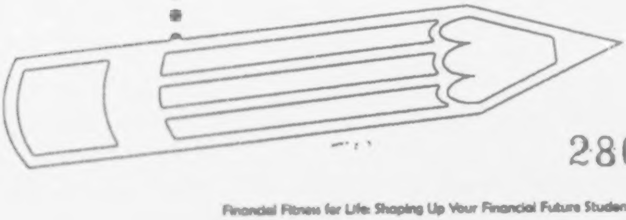
f. *pension fund*

g. *borrower*

h. *financial intermediary*

i. *operating costs*

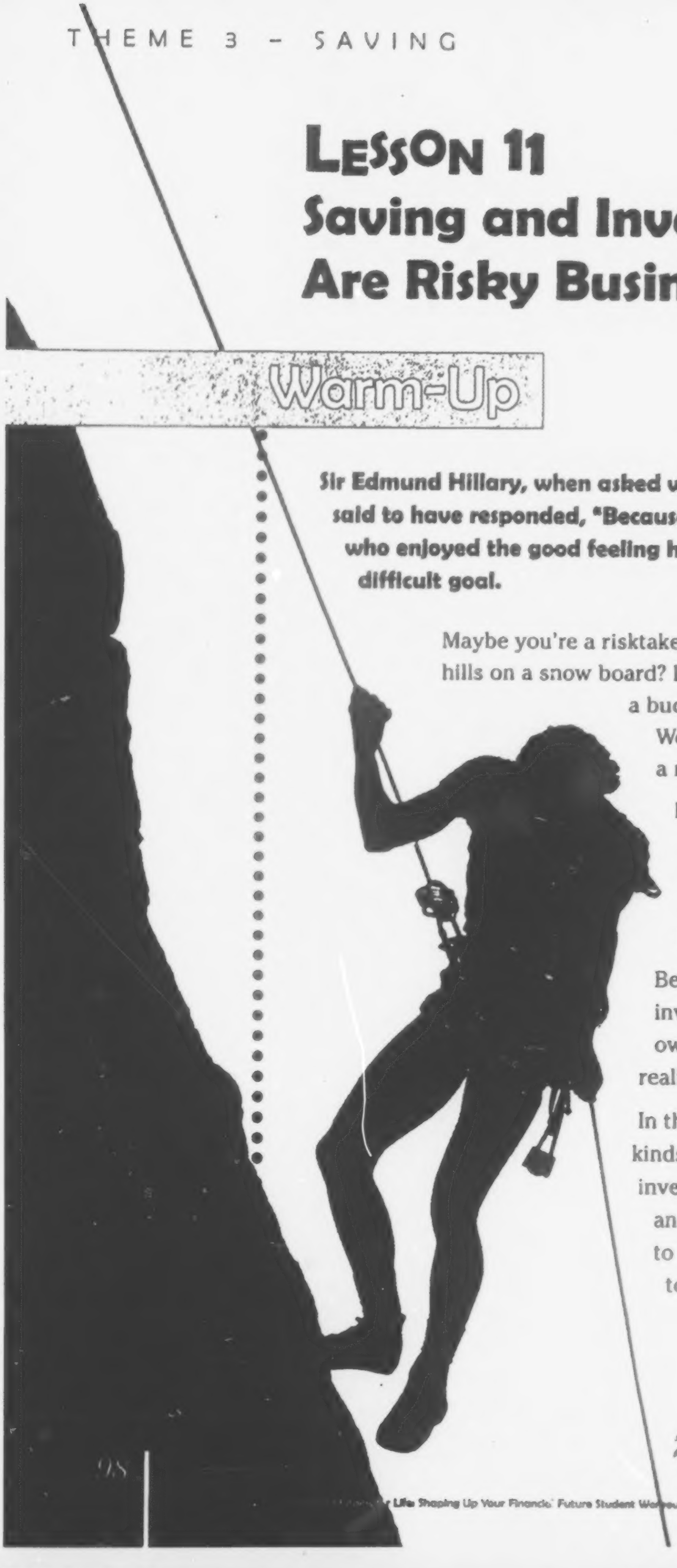




LESSON 11

Saving and Investing Are Risky Business

Warm-Up



Sir Edmund Hillary, when asked why he climbed Mount Everest, is said to have responded, "Because it is there." Hillary was a risktaker who enjoyed the good feeling he got from reaching an exciting, difficult goal.

Maybe you're a risktaker, too. Do you enjoy riding down steep hills on a snow board? Does the thought of skydiving or riding a bucking bronco make your pulse race? Would you invest all your savings to buy a rare stamp?

Risk is an important thing to keep in mind as you begin to think about investing your hard-earned income. How much are you willing to risk? How much can you afford to lose?

Because most investments involve risk, investors must examine carefully their own attitudes toward risk. They must also realize that there are different kinds of risk.

In this lesson, you will learn about several kinds of risk that accompany the act of investing. By recognizing your own attitude and tolerance of risk, you'll be better able to make responsible decisions about how to invest your income.

FITNESS VOCABULARY

Interest rate risk – The risk that interest rates will rise while you have your income locked in to a lower interest rate investment.

Inflation risk – The risk that the rate of inflation will exceed the interest rate you are earning on an investment.

Risk of loss – The risk that the value of your investment will decrease.

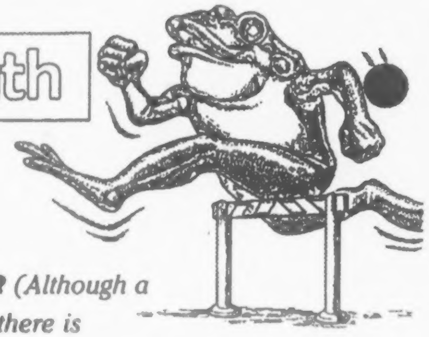
Opportunity cost – The next best alternative given up when a choice is made.

MUSCLE DEVELOPERS

Learn these ideas, practice them, and develop your financial fitness muscles.

- ✓ Investments that carry the greatest risk usually have the potential for the greatest reward (or the greatest loss).
- ✓ Every investment involves risks.
- ✓ Different investments have varying degrees of risk. The investor should determine how much risk she or he can tolerate when putting his or her savings to work in stocks, bonds, or savings instruments.
- ✓ If you commit your income to a long-term investment (such as a long-term CD or a 30-year bond), you must be prepared to accept the agreed-upon interest rate for as long as you hold that investment, even if other investment options offer higher rates of return.
- ✓ Figuring your rate of return on an investment is very important for comparing one investment with another.
- ✓ With a savings account, the principal is not at risk. Stocks, on the other hand, offer no guarantees. You might pay $50 a share for XYZ stock, and a month later, the share price could be $5. If you sell, you'll have less money than you had at the beginning.

Showing Your Strength



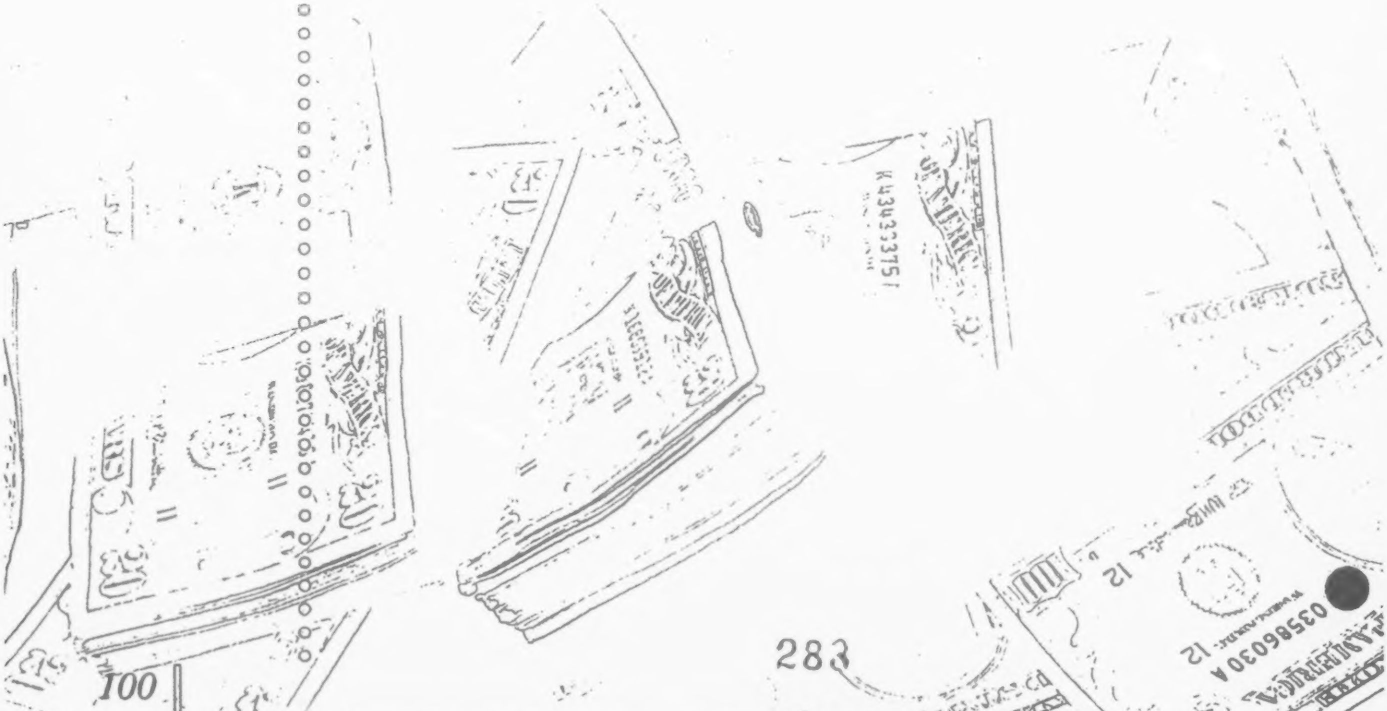
If you know the answers to these questions, you are developing some financial muscle.

1 **What risk is involved in a statement savings account?** *(Although a statement savings account is insured up to $100,000, there is risk. For example, while your savings earn 3% interest in the account, the inflation rate might be 4%, which means that your savings lose its purchasing power.)*

2 **What risk is involved in the stock market?** *(Even though blue chip stocks have traditionally returned more than 10% annually, there is no guarantee that they always will. The price of a stock can go up—or down. If the price goes down, investors can lose part of their original investment.)*

3 **Interest-rate risk primarily hurts what kind of investor?** *(Those who lock in their investment for a period and have difficulty getting their money out without substantial penalty.)*

4 **Why is knowing the rate of return important to the investor?** *(By figuring out rate of return, the investor can compare the return on various investments that he or she has).*



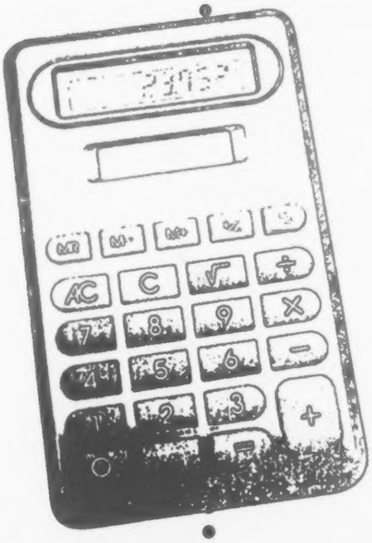
EXERCISE 11.1

Now or Later?

One year ago you placed $975 in a savings account paying three percent interest. You were saving to buy one of the items listed below. The items changed in price over the year. Look at the current prices for the items. You will see that in some cases it was good that you waited. In other cases, you are worse off. Calculate the percentage change in price to discover just how much better or worse off you are. Give it a try!

Item	Last year's price	This year's price	% change
computer	$ 997.00	$ 897.30	
digital camcorder	$1,005.00	$ 954.75	
digital television	$1,000.00	$1,070.00	
car stereo system	$ 995.00	$1,074.60	
one year's wardrobe	$ 995.00	$1,094.50	

Amount in your savings account at the end of the year. ________________
(Principal plus interest.)



1. Which items could you purchase with your savings if you were to buy them in the present year?
2. Which items would you have been able to purchase with your savings last year?
3. What item had the greatest percentage increase in price?
4. Which item had the greatest percentage decrease in price?
5. For which items did you lose buying power over the year?

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EXERCISE 11.2

Decisions, Decisions

Choosing the right savings method can be puzzling for savers. You have just discussed the risks of various savings plans. Apply your knowledge of interest-rate risk and inflation risk to determine what saving methods you would choose in the following situations. Be sure to explain why the method you choose is the best for the situation. Choose from a statement savings account, a U.S. Savings Bond, a money market deposit account, or a certificate of deposit (CD).

a You have savings of $100 that you need within two months and you think interest rates will be going down in the next few years.
Savings method ______________ Why? ______________________________
____

b You have $1,000 in savings that you may need within three years and you believe interest rates will be rising over that time.
Savings method ______________ Why? ______________________________
____

c You have $1,000 in savings that you do not need within the next three years and you believe interest rates will be declining.
Savings method ______________ Why? ______________________________
____

d You have $50 that you want to put away for your college costs in seven years. You believe interest rates will be increasing for most of those seven years.
Savings method ______________ Why? ______________________________
____

e You have savings of $10,000 from which you need to make periodic withdrawals. You believe interest will be decreasing in the next few years.
Savings method ______________ Why? ______________________________
____

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EXERCISE 11.3

Yield to the Investor

Calculate the rate of return on the following savings/investments.
Keep in mind that the formula is:

$$\frac{\text{Amount of Return}}{\text{Investment}} \times 100 = \%\ \text{return}$$

1 You put $1,000 into a statement savings account, and you do not add or take out anything during the year. You received $30 in interest during the year. What is the rate of return?

%

2 You purchased 100 shares of stock for $50 per share a year ago. You received dividend payments of 50 cents per share four times during the year. The stock at the end of the year was worth $53 a share. What is the rate of return if you sold the stocks at the end of the year?

%

3 You purchased 100 shares of stock at $30, and earned 90 cents per share in dividends 4 times during the year. At the end of the year, the stock was still worth $30. What is the rate of return if you sold the stocks at the end of the year?

%

4 You purchased 100 shares of stock at $50 a share. You received a $2 per share dividend during the year. The stock is worth $49 at the end of the year. What is the rate of return at the end of the year if you sold the stocks?

%

5 Which one of these investments yielded the best return for the year? If it is one of the stock returns that is higher than the return on the savings account (#1), explain why it *should* be higher.

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ASSESSMENT

Weighing All the Risks

In this lesson, you have learned about three types of risks. For each of the following saving plans and investments, identify the major risk that you would have with each option. After naming the risk, give reasons for your response. The risks are:

A Inflation rate risk

B Interest rate risk

C Financial risk

1 Savings account

2 Certificate of deposit

3 U. S. savings bond

4 Stocks

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Bank of America
4356 1234 56
VALID DATES
05/00 - 05/
T. SMITH
MEMBER SINCE 95
Bank of America
Platinum
4227 1234 567 9012
VALID DATES

THEME 4

Spending and Credit Are Serious Business

Introduction

What's more fun than shopping?

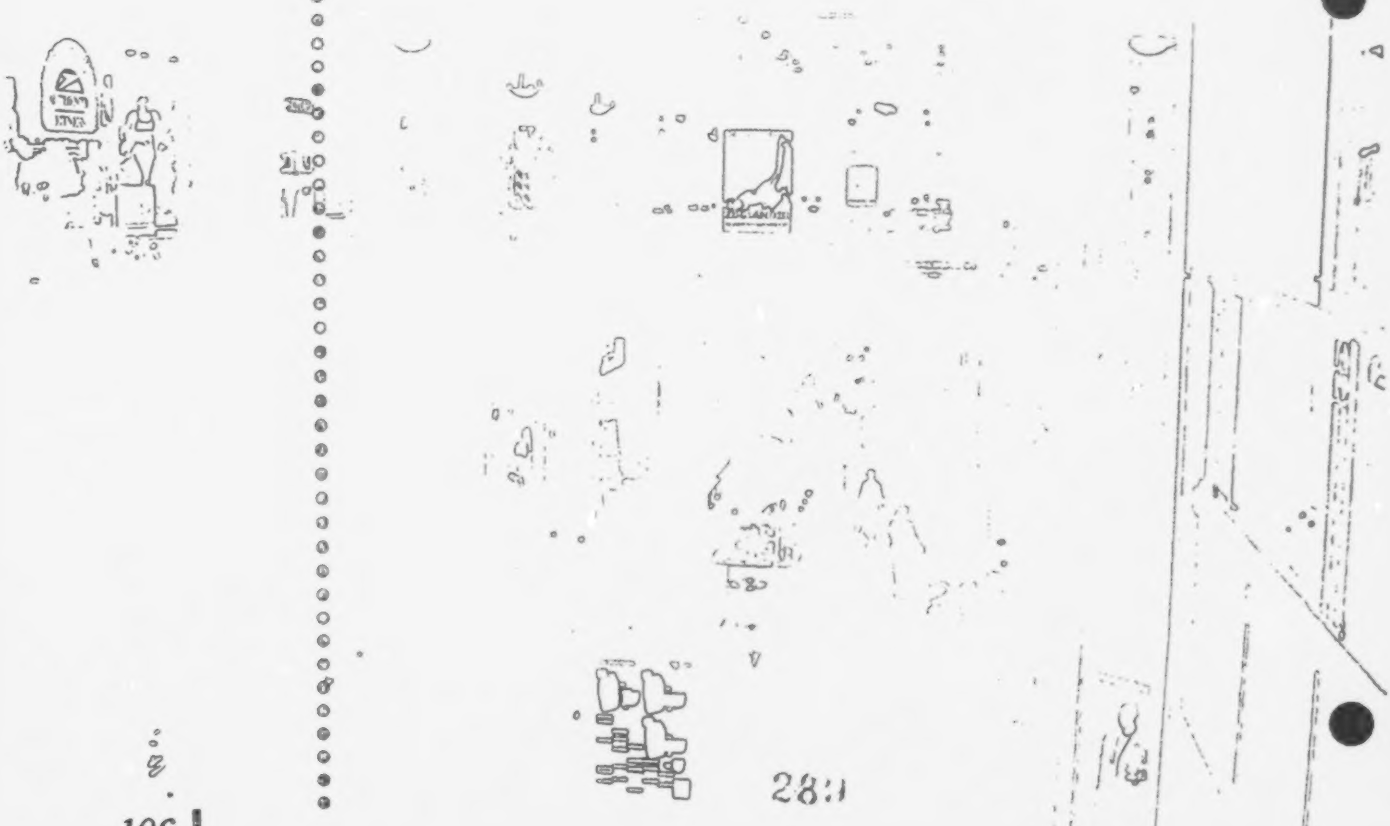
Homework? Babysitting? Cleaning your room? Probably not.

But trying on the latest fashions, checking out a terrific new video game, tasting a delicious ice cream flavor at the mall: now *those* are fun things to do. In fact, the whole experience of shopping has nearly replaced baseball as the national pastime.

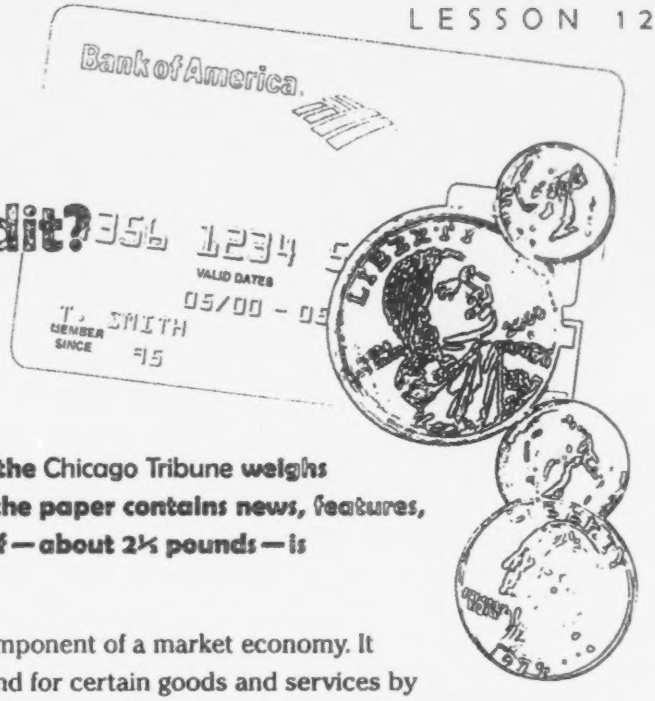
Shopping for a bargain presents exciting challenges. You begin by checking out commercials and advertisements to compare different brands. Then you probably go from store to store to find just what you want at the best price. But even though shopping is fun, it can also be stressful, especially if you find something you really want, but you don't have enough money to pay for it.

What can you do if you're short of cash? You might be able to use credit to buy the item now, but you'll have to pay for it eventually—and you'll be paying interest too.

Yes, shopping can be a pleasant Sunday afternoon adventure or a disastrous assault on your finances. It's up to you. By being a wise and sensible shopper — one who looks for the best quality and price, and who pays bills on time — you'll have the foundation for sensible money management and a good credit record. Good credit combined with rational spending habits can set you on the road to your *Financial Fitness for Life*.



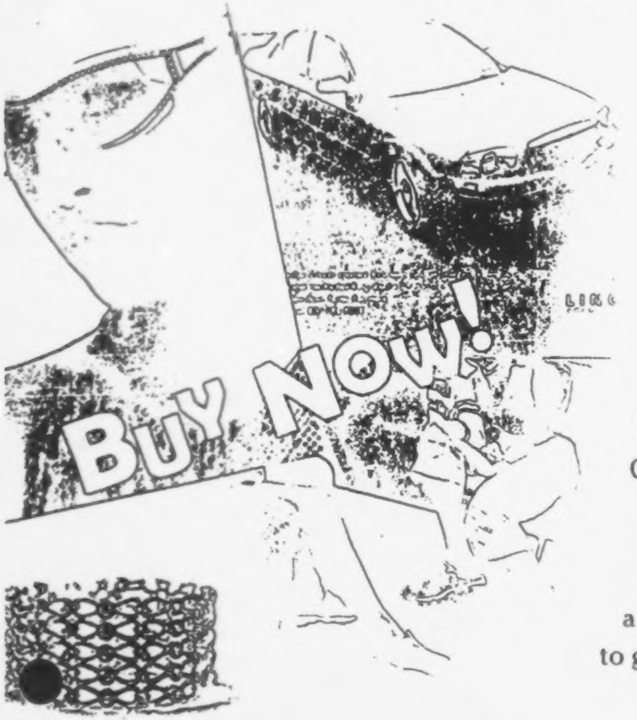
LESSON 12
Cash or Credit?



Warm-Up

A typical Sunday edition of the Chicago Tribune **weighs nearly five pounds. Half of the paper contains news, features, and editorials; the other half—about 2½ pounds—is advertising.**

Advertising is an important component of a market economy. It attempts to increase the demand for certain goods and services by changing people's tastes and preferences. For example, an ad that shows a famous athlete drinking a new brand of sports drink might encourage more people to buy the product. When great-looking models on a billboard are wearing designer jeans, consumers may believe buying that brand of jeans will make them just as attractive as the models.



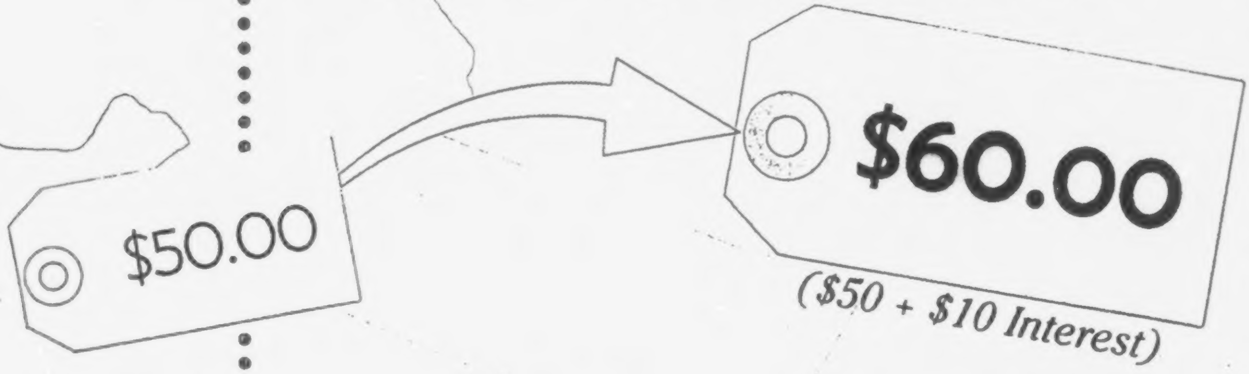
Of course, when people respond to advertising, they may end up spending money. It might be a small amount, like $17 for a new music CD, or it could be hundreds of dollars for clothes, sporting goods, a computer, or stereo equipment. There's nothing wrong with spending money; in fact, consumer spending generates positive effects in the economy, including more jobs and income for workers and more taxes to support public projects.

But sometimes spending can get out of hand. Sometimes people spend more money than they actually have. One way they do this is by using credit.

Credit, when handled wisely, allows a person to buy a product now, use and enjoy it, and pay for it later—with interest. If there were no credit, most people would have difficulty saving enough to buy a house or a new car, and many students would not be able to go to college.

Just like other decisions, however, the decision to use credit involves an opportunity cost. And with credit, the opportunity cost lies in the future. When you buy that birthday present for your mom on credit, she can enjoy it right away, but you'll have to pay for it eventually. And when you do, you'll have to give up spending that money for something else you might want in order to make the payment.

Buy Now, Pay Later — **With Interest**



FITNESS VOCABULARY

Annual Percentage Rate (APR) – The interest rate for one year.

Credit limit – The maximum amount of credit extended to you by a bank or credit card issuer.

Finance charge – The amount of interest you must pay for the credit you use.

Annual fee – The yearly charge for having a credit card.

Minimum payment – The lowest amount you must pay toward your credit balance each month.

Grace period – A period of time during which you are not charged interest on new purchases (if you have no outstanding balance).

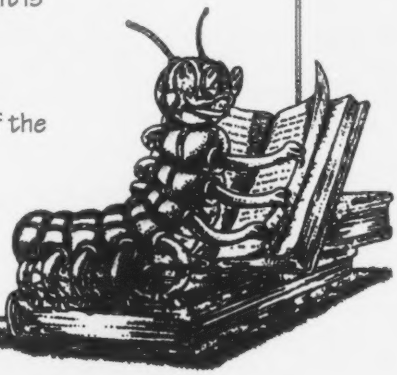
Late fee – A penalty, in addition to interest, that is charged if payment is received after the due date.

Interest – The price of using credit.

Interest rate – The price of using credit expressed as a percentage of the amount owed.

Opportunity cost – The next-best alternative that is given up when a choice is made.

Inflation – A general increase in prices.



MUSCLE DEVELOPER$

Learn these ideas, practice them, and develop your financial fitness muscles.

- ✓ Most credit is issued by banks or other financial institutions.
- ✓ Credit allows you to postpone paying for a product while you use and enjoy it right now.
- ✓ When you use credit, you have to repay the amount you owe, plus interest, at a later date.
- ✓ The opportunity cost of using credit lies in the future. When you pay back your credit debt, you will have to give up something else you could have bought with that money.
- ✓ Knowing all the details of a credit agreement will help you use credit wisely.
- ✓ Credit is offered at different rates and with different "other" charges. It pays to shop around for the best terms that you can get.

In this lesson you'll learn about advantages and disadvantages of using credit and about how to read a credit card statement. Knowing about credit and making good decisions about how to use it will help you control your finances now and in the future.

Every Choice Involves an Opportunity Cost

If you see a terrific looking sweater on sale for $50,
you might use your credit card to buy it right now.
But next month, when the bill for $50 comes in the mail,
you'll have to give up something else
you could buy for $50 in order to pay your debt.
The thing you give up is your opportunity cost.

Showing Your Strength

If you know the answers to these questions, you are developing some financial muscle.

1 **What are some of the advantages of using credit?** *(Using credit is safer than using cash. Because your signature is on the credit card, no one but you can use it. If your credit card is lost or stolen, you are not responsible for unauthorized purchases beyond the first $50. You are not responsible even for the first $50 if the card is used after you report the loss.)*

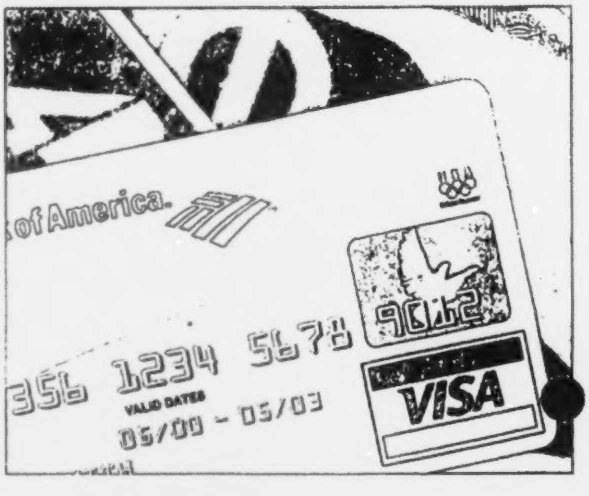
2 **What are some disadvantages of using credit?** *(The biggest problem with using credit is using it too much. If you charge more than you can reasonably repay, you're headed for trouble.)*

3 **What is the interest rate on a typical credit card?** *(Rates vary greatly. Some introductory rates are as low as two or three percent, but don't be fooled. Those rates can jump to 15 percent o: even 22 percent when the introductory period expires.)*

4 **What's so important about the grace period?** *(The grace period tells you how many "free" days you have before the credit card company starts charging interest. Charges you pay before the grace period ends (the payment due date) are interest free. Some credit cards have no grace period. That means the bank charges interest from the day you make a purchase.)*

5 **How can you find out which bank has the lowest rate?** *(Just as you shop around for the best deal on a new bike, you should shop around for credit. Check the Internet and the business pages of your local newspaper, or call the toll-free number of banks that issue credit cards.)*

6 **How old does a person have to be to get a credit card?** *(To have your own credit card, you have to be 18, but if an adult agrees to co-sign for you, you can get one when you're younger.)*



EXERCISE 12.1

So Many Credit Card Offers: What's the Difference?

With your partner, examine two credit card applications. Then complete the chart below and answer the questions that follow.

	Credit Card A	Credit Card B
Annual fee		
Interest rate (APR)		
Grace period		
Minimum payment		
Late fee		
Other fees		

If you were to choose one of these credit cards, which one would it be? ______________

What are the benefits of the card you chose? ______________

What are some of the costs of the card you chose? ______________

EXERCISE 12.2

Cash or Credit? You Be The Judge

SALE!

Super Stereo System

Regularly $1000

Now 20% off!

Read the four stories below and analyze each person's spending decision regarding the stereo sale advertised above.

A Elizabeth wants to buy a new stereo, but she just started her baby-sitting job and she hasn't earned any money yet. She figures once she starts earning income she can save $90 a month in a savings account that earns three percent interest *annually*. Elizabeth learned about *inflation* in school. Inflation is a general increase in prices. She learned that the annual inflation rate is about three percent.

She decides to save her money and buy the stereo next year when she can afford to pay cash for it.

1 Assuming the price of the stereo increases at the rate of inflation, how much will the stereo cost a year from now?
(HINT: $1000 × .03 + $1000) ______________________

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2 How much will Elizabeth put into her account in the year?

____

3 Will Elizabeth be able to buy the stereo?

____

4 Will Elizabeth have any money left over?

____

B

David would like to buy a stereo and save 20 percent during a sale. He uses his credit card to pay for it. David is counting on getting a lot of graduation money from his parents' business associates. David knows that his credit card company offers a 28-day grace period, so if he pays off the whole amount, he won't owe any interest.

Sure enough, after his big party, David counts up the checks and he has $900! When he gets his credit card bill at the end of the month, he is able to pay the balance of $800 in full.

1 How long will it take for David to pay off the $800?

____

2 How much interest will he have to pay?

____

C

Ryan has a credit card. When he spotted a sale, he wanted to take advantage of the $200 savings and buy a stereo at the sale price.

Ryan plans to save $90 a month from his job as an office assistant in his dad's insurance business. He plans to pay the credit card company $90 every month until his bill is paid.

1 Use the chart on the next page to figure out how long it will take him to pay off his credit card debt; the first month is done for you.

EXERCISE 12.2 CONTINUED

Ryan's Credit Card Summary

A	B	C	D	E	F	G
No. of Months	Amount Owed (Col. G on line before)	$90 paid each month	New Balance (B – C)	Annual Interest @ 18% (D x .18)	Monthly interest (E ÷ 12)	New Amount Owed (D + F)
Month 1	$800.00	90.00	710.00	127.80	10.65	720.65
Month 2	720.65					
Month 3						
Month 4						
Month 5						
Month 6						
Month 7						
Month 8						
Month 9						
Month 10						
Month 11						
Month 12						
Month 13						
Month 14						

2 Add all the numbers in Column C to find out how much Ryan ended up spending when he bought the stereo.

____

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D Caitlin really wants a new stereo too, and the 20% off sale is very tempting, so she decides to use her credit card and buy the stereo now for $800.

Caitlin works once in a while for her neighbor—cleaning, baby-sitting or mowing the lawn—but she doesn't really earn a regular income. She probably won't be able to save much money, so she plans to pay only the minimum required every month on her credit card bill.

(NOTE: Most credit card companies require a minimum monthly payment of at least $10 or 1/50 of the unpaid balance, whichever is higher. So, if you owe $1,000, your minimum payment is 1/50 of $1,000 or $20; if you owe $100, your minimum payment is $10 because 1/50 of $100 is only $2.)

1 Look at the chart for Caitlin's Credit Record for the first 22 months and the last 17 months of her payments. The chart shows what happens when Caitlin makes only the minimum payment. Then answer the following questions.

▲ How many years will it take to pay for the stereo:

____

▲ How much will Caitlin spend for the $800 stereo?
(Total of Column C):

____

▲ How much interest will Caitlin pay (Column F) on her purchase?:

____

EXERCISE
12.2
CONTINUED

Caitlin's Credit Card Summary

A	B	C	D	E	F	G
No. of Months	Amount Owed (Col. G on line before)	Min. paymt $10 or 1/50 of B (whichever is higher)	Balance after min. is paid (B – C)	Annual Interest @ 18% (D x .18)	Monthly Interest (E ÷ 12)	New Amount Owed (D + F)
Month 1	$800.00	16.00	784.00	141.12	11.76	795.76
Month 2	795.76	15.92	779.84	140.37	11.70	791.54
Month 3	791.54	15.83	775.71	139.63	11.64	787.35
Month 4	787.35	15.75	771.60	138.89	11.57	783.17
Month 5	783.17	15.66	767.51	138.15	11.51	779.02
Month 6	779.02	15.58	763.44	137.42	11.45	774.89
Month 7	774.89	15.50	759.40	136.69	11.39	770.79
Month 8	770.79	15.42	755.37	135.97	11.33	766.70
Month 9	766.70	15.33	751.37	135.25	11.27	762.64
Month 10	762.64	15.25	747.39	134.53	11.21	758.60
Month 11	758.60	15.17	743.43	133.82	11.15	754.58
Month 12	754.58	15.09	739.48	133.11	11.09	750.58
Month 13	750.58	15.01	735.57	132.40	11.03	746.60
Month 14	746.60	14.93	731.67	131.70	10.98	742.64
Month 15	742.64	14.85	727.79	131.00	10.92	738.71
Month 16	738.71	14.77	723.93	130.31	10.86	734.79
Month 17	734.79	14.70	720.10	129.62	10.80	730.90
Month 18	730.90	14.62	716.28	128.93	10.74	727.02
Month 19	727.02	14.54	712.48	128.25	10.69	723.17
Month 20	723.17	14.46	708.71	127.57	10.63	719.34
Month 21	719.34	14.39	704.95	126.89	10.57	715.52
Month 22	715.52	14.31	701.21	126.22	10.52	711.73

A	B	C	D	E	F	G
No. of Months	**Amount Owed (Col. G on line before)**	**Min. paymt $10 or 1/50 of B (whichever is higher)**	**Balance after min. is paid (B – C)**	**Annual Interest @ 18% (D x .18)**	**Monthly Interest (E ÷ 12)**	**New Amount Owed (D + F)**
Month 163	148.49	10.00	138.49	24.93	2.08	140.56
Month 164	140.56	10.00	130.56	23.50	1.96	132.52
Month 165	132.52	10.00	122.52	22.05	1.84	124.36
Month 166	124.36	10.00	114.36	20.58	1.72	116.08
Month 167	116.08	10.00	106.08	19.09	1.59	107.67
Month 168	107.67	10.00	97.67	17.58	1.46	99.13
Month 169	99.13	10.00	89.13	16.04	1.34	90.47
Month 170	90.47	10.00	80.47	14.48	1.21	81.68
Month 171	81.68	10.00	71.68	12.90	1.08	72.75
Month 172	72.75	10.00	62.75	11.30	0.94	63.69
Month 173	63.69	10.00	53.69	9.66	0.81	54.50
Month 174	54.50	10.00	44.50	8.01	0.67	45.16
Month 175	45.16	10.00	35.16	6.33	0.53	35.69
Month 176	35.69	10.00	25.69	4.62	0.39	26.08
Month 177	26.08	10.00	16.08	2.89	0.24	16.32
Month 178	16.32	10.00	6.32	1.14	0.09	6.41
Month 179	6.41	6.41	0.00	0.00	0.00	0.00
TOTALS		**2034.04**			**1234.04**	

Total payments!

Total interest paid!

EXERCISE 12.3

Understanding a Credit Card Statement

ACCOUNT SUMMARY

Account number	1234 5678 9876
Total credit line	$3,000.00
Total available credit	$2,612.00
Cash limit	$1,000.00
Cash available	$612.00
Amount past due/over limit	$0.00
Statement closing date	1/15/01
New balance	$387.49
Payment due date	2/10/01
MINIMUM PAYMENT DUE	$13.00

ACCOUNT ACTIVITY

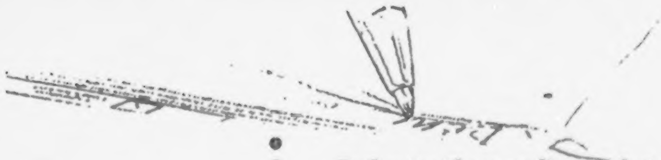
Previous balance	$345.55
Payments	$200.00
Other credits	$0.00
Purchases	$207.64
Cash advances	$0.00
Late fees	$29.00
FINANCE CHARGE	$5.30
New balance	$387.49

TRANSACTIONS

TRANSACTION DATE	DESCRIPTION	REFERENCE NUMBER	AMOUNT
12/20/00	Super Mart Grocers	3434BR56IA787N28	$20.75
12/27/00	Zott's Gas and Go	1212SH566ER89YL7	12.00
01/04/01	Jeff's Hardware	7070MU4747SI2433EL	24.89
01/10/01	Mark Auto Service	5757WI78728RT999Z	150.00

You may avoid finance charges by paying the new balance in full by 2/10/01
Explanation of Fees: $29.00 — Late fee

If you have any questions about your account,
call 24 hours a day:
(800) 987-6543
Mail your payment in the enclosed envelope to:
Credit Card Services
3333 Fortress Lane
Box 1110
Anywhere, U.S.A. 00001-1110



Refer to the credit card statement in this exercise to answer these questions.

1 By what date must the minimum payment on this bill be paid?

2 On what date was a grocery purchase made?

3 What is the $29 fee listed under Account activity?

4 Why can't a $3,500 vacation be charged to this account?

5 What is the total amount of purchases made this month on this card?

6 How much of the previous balance was paid off last month?

7 What is the total credit line on this credit card?

8 How much credit was available at the time of this statement?

9 How much is the card holder's finance charge this month?

10 Why does the card holder owe a finance charge?

11 Based upon this person's credit limit, purchases, payments and fees, do you think s/he is handling credit wisely? Explain your answer.

ASSESSMENT

Rubric for Evaluating Panel Discussion

Prepare a panel discussion on credit which covers the topics listed in the table. Your presentation will be evaluated according to the criteria, using the point scale.

Topics to be covered in Panel Discussion	**Discussed thoroughly and accurately** 2 points	**Briefly discussed with some inaccuracies** 1 point	**Not discussed** 0 points
Advantages of using credit			
Disadvantages of using credit			
APR			
Grace period			
Annual fees			
Transaction fees (late fees)			
Minimum payment and total cost			
Interesting statistics about credit			
Recommendations for wise credit use			
How inflation may affect decisions about use of credit			
The opportunity cost of credit			
Totals			
Grand Total of Three Columns			

LESSON 13
Establishing Credit

Warm-Up

Remember the fable of the boy who cried wolf? The shepherd boy made up so many stories about seeing a wolf in the pasture that when he actually did see one, no one in the village believed him or answered his cries for help. If he had been honest and trustworthy in the beginning, his story would have been accepted when he was in real trouble.

This fable also says something about what is needed in order to establish a good credit history. People who borrow money and don't return it, or who are consistently late in making payments on loans, will have a bad credit record. They will not be trusted because of their past history and will have trouble getting loans or credit cards in the future. More important, being turned down for credit can have unfortunate consequences: no college financial aid perhaps, or no new car, no house, furniture, or even a stereo or computer.

This lesson will help you understand the importance of establishing a good credit history. By being a responsible borrower in small things, you can develop good habits that lead to a favorable credit record. Then, when you are older, you will avoid problems when applying for a loan for big-ticket items, such as a car or a house.

MUSCLE DEVELOPERS

Learn these ideas, practice them, and develop your financial fitness muscles.

- ✓ Good credit habits begin early. Repaying loans and returning borrowed items in good condition establish lifelong patterns of responsibility.
- ✓ A favorable credit history includes keeping a job and home address for more than a few months, paying bills promptly, and handling debt sensibly.
- ✓ Establishing a good credit history at an early age increases the likelihood of obtaining a loan when a person gets older.
- ✓ Having a savings or checking account and other assets indicates financial responsibility and makes acquiring credit easier.
- ✓ When a person applies for a loan, she or he must usually present collateral, property, or some other security to guarantee that the loan will be repaid.

Financial Fitness for Life: Shaping Up Your Financial Future Student Workouts, ©National Council on Economic Education

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Showing Your Strength

If you know the answers to these questions, you are developing some financial muscle.

1 What kinds of risks are involved in the use of credit? *(The lender's risk is that the borrower might not repay. The borrower's risk is not being able to make the payments, thus ruining his or her credit rating.)*

2 Why do some people have to pay much more interest on their loans than other people? *(People with a poor credit rating usually must pay higher interest rates than people with good credit ratings. This is because there is a higher risk that a person with a poor credit rating will not pay the loan back. Whenever there is greater risk of default, a lender will charge a higher interest rate.)*

3 How can a person improve a poor credit record? *(A credit record is a continuous report of a person's credit history. Ongoing and responsible payment of debt will have a positive impact on a person's credit record.)*

4 What are some things that can be used as collateral? *(Valuable possessions such as property, automobiles, and financial assets can be used to guarantee repayment; however, these items are appraised at their current market value, not their original purchase price.)*

5 What happens if a person fails to repay a loan that is backed by collateral? *(The item, e.g. a house or car, can be repossessed. That means that the lender seizes the property and sells it to help pay the loan. Whatever balance remains on the contract after the sale of the item is still owed by the borrower. For example: A borrower defaults on a car loan while still owing $5,000. The lender repossesses the car and sells it, but only gets $3,000 at a used car auction. The borrower still owes $2,000 to the lender.)*

FITNESS VOCABULARY

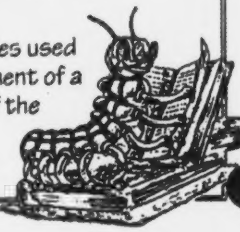
Credit rating – An evaluation of a borrower's ability to repay a loan, based on character, capacity, and collateral.

Character – A borrower's responsible handling of past debt as well as stability in a job and residence.

Capacity – A borrower's ability to repay based on income and current debt.

Capital – A borrower's financial assets and net worth.

Collateral – Property or other valuables used as security to guarantee the repayment of a loan. The lender can claim collateral if the borrower fails to repay.



EXERCISE 13.1A

Completed Loan Application and Credit Report – Applicant 1

Loan Application, Part A

Loan amount requested: $8000 Length of loan: 4 years

Monthly payment: $194.00 Reason for loan: Buy a new car

Personal Information:

(A) Applicant's name: James Paul Anderson Date of birth: 9-2-72

(S) Spouse's name: Judith Rice Anderson Date of birth: 9-29-73

Marital status (please mark one):

☐ single ☑ married ☐ widowed ☐ divorced

Address: 704 Houser Street **Social security #:** (A) 002-92-8976

City: Leslietown (S) 202-35-7653

State: VA **Zip:** 24523

Phone: (703) 927-0909

Dependents:	**Relationship:**	**Age:**
Sean Stuart Anderson	son	6 mos.

Education (record only your highest level of education attained):

(A) High school diploma (S) High school diploma

Employment (list only the current jobs held by you or your spouse):

(A): Construction laborer (S): Housewife

Building Contractors, Inc.

Household gross annual employment income: $27,500

Approximate net annual employment income: $22,000

Other income: none

Housing information:

Do you: ☐ own ☑ rent ☐ live with others?

Monthly mortgage or rent expense: $550

From **Personal Finance Economics, 6–8: Money in the Middle**
©National Council on Economic Education, New York, NY

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Loan Application, Part B

Current Loans Outstanding (List the lender, loan type, balance owed, monthly payment, and remaining period of loan):

1) Seventh Bank	Personal loan	$1,960	$187	11 mos.
2) You Buy It Now	TV/furniture	$3,000	$113	32 mos.

Credit cards (List the name of the lender, type of card, current balance outstanding, typical monthly payment):

1) Seventh Bank	VIDA Card	$2,500	$45

References (You must list in the designated order:your current employer, previous employer, and nearest relative not living with you):

1) Samantha Sternwell	Building Contractors, Inc	(703) 927-7623
2) Jason Briddet	Skyscrapers, Incorporated	(703) 937-8354
3) Martha S. Anderson	Leslietown, VA	(703) 927-0098

Purpose of loan: We would like to buy a new car. Our current car is not reliable and needs repair. We would like to borrow $8,000 for four years and think we could afford the monthly payment of $194.

Credit Report

James P. and Judith Anderson

FINANCIAL INFORMATION	**ITEM**	**BALANCE/VALUE**
Checking accounts(s):	Seventh Bank	$3,000
Savings accounts(s):	Seventh Bank	$2,000
Investments:	none	
Real estate:	none	

REFERENCE INFORMATION

Landlord:	Always pay rent on time. Excellent tenant. Good neighbor to others in building.
Seventh Bank:	New customer but timely with payments. They took out a personal loan last month, have had their credit card for six months, and have been paying the minimum on their balance each month.
You Buy It Now:	Recently opened their account. Timely payments so far.

EXERCISE 13.1B

Completed Loan Application and Credit Report – Applicant 2

Loan Application, Part A

Loan amount requested: $32,000 Length of loan: 5 years

Monthly payment: $649.00 Reason for loan: Buy a sporty new car

Personal Information:

(A) Applicant's name: Joey Deligh Date of birth: 1-5-70

(S) Spouse's name: Date of birth:

Marital status (please mark one):

☑ single ☐ married ☐ widowed ☐ divorced

Address: 9191 Edgemare Drive **Social Security #:** (A) 778-90-6732

City: Leslietown (S)

State: VA **Zip:** 24523

Phone: (703) 927-1112

Dependents:	**Relationship:**	**Age:**
none		

Education (record only your highest level of education attained):

(A) Bachelor of Science in Marketing (S)

University of Leslietown

Employment (list only the current jobs held by you or your spouse):

(A): Advertising Executive (S):

Billboards Galore

Household gross annual employment income: $38,000

Approximate net annual employment income: $30,000

Other income: $2,000

You Sell It – We'll Advertise It

(personal business)

Housing information:

Do you: ☑ own ☐ rent ☐ live with others?

Monthly mortgage or rent expense: $982

Loan Application, Part B

Current loans outstanding (List the lender, loan type, balance owed, monthly payment, and remaining period of loan):

1)	Sixth Bank	Personal business	$9,000	$207	57 mos.
2)	Sixth Bank	Auto	$240	$246	1 mos.
3)	Wildcat Lenders	Education	$19,500	$348	67 mos.

Credit cards (List the name of the lender, type of card, current balance outstanding, typical monthly payment):

1)	Sixth Bank	VIDA Card	$8,500	$125
2)	Sixth Bank	Charge-It-Master	$5,000	$ 75

References (You must list in the designated order: your current employer, previous employer, and nearest relative not living with you):

1)	Hayward Stephens	Billboard Galore	(803) 937-9998
2)	no previous employer		
3)	Ronald Deligh	Winston, CA	(909) 843-1121

Purpose of loan: I would like to buy a new car. I am about to pay off my current car and don't want it anymore. If I borrow $32,000 for five years, my payment would be $649.00 per month and I could get a Corvette.

Credit Report

Joey Deligh

FINANCIAL INFORMATION	**ITEM**	**BALANCE/VALUE**
Checking accounts(s):	Sixth Bank	$ 500
Savings accounts(s):	Sixth Bank	$1,000
Investments:	IMF Mutual Funds	$5,000
Real estate:	9191 Edgemare Drive	$10,000*

*value of home less than what is owed on its mortgage.

REFERENCE INFORMATION

Mortgage holder:	Frequently late making payments. Currently, behind one monthly mortgage payment.
Sixth Bank:	Has two outstanding loans and two credit cards with our bank number. Has been late with payments in the past. Currently, up to date with both loan payments. However, credit cards are at their maximum credit limit and has been paying the minimum payment on balance owed.
Wildcat Lenders:	Always pays on time.
Ronald Deligh (father):	Is willing to cosign on a loan.

EXERCISE 13.1C

Completed Loan Application and Credit Report – Applicant 3

Loan Application, Part A

Loan amount requested: $10,000 Length of loan: 7 years
Monthly payment: $174.00 Reason for loan: Buy a boat

Personal information:
(A) Applicant's name: Claudette Ransdia Date of birth: 12-08-53
(S) Spouse's name: Landon H. Ransdia Date of birth: 8-01-54

Marital status (please mark one):
☐ single ☑ married ☐ widowed ☐ divorced

Address: 5608 Uptown Street **Social security #:** (A) 209-96-1746
City: Leslietown (S) 207-33-7330
State: VA **Zip:** 24533
Phone: (703) 937-1990

Dependents:	**Relationship:**	**Age:**
S. Olivia Ransdia	daughter	16
John S. Ransdia	son	13
Erin E. Ransdia	daughter	12

Education (record only your highest level of education attained):
(A) Juris Doctor (S) Master of Arts in Education
James Madison University University of Wyoming

Employment (list only the current jobs held by you or your spouse):
(A): Attorney (S): Teacher
Jones, Barnett, & Cline Leslie County Middle School
Attorneys at Law

Household gross annual employment income: $103,000
Approximate net annual employment income: $ 83,000
Other Income: $ 2,000

Housing Information:
Do you: ☑ own ☐ rent ☐ live with others?
Monthly mortgage or rent expense: $1,250

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Loan Application, Part B

Current loans outstanding (List the lender, loan type, balance owed, monthly payment, and remaining period of loan):

1) Leslietown Bank	Auto	$4,300	$145	33 mos.
2) Leslietown Bank	Auto	$8,000	$247	38 mos.
3) Leslietown Bank	College	$21,000	$293	93 mos.
4) Leslietown Bank	Motor Home	$26,000	$587	57 mos.

Credit cards (List the name of the lender, type of card, current balance outstanding, typical monthly payment):

1) Leslietown Bank	VIDA Card	$ 250	in full
2) Leslietown Bank	Charge-It-Master	$ 750	in full
3) AmeriPlan Bank	Explorers	$6,750	$1,000

References (You must list in the designated order: your current employer, previous employer, and nearest relative not living with you):

1) (A) Reginald Jones	Jones, Barnett, & Cline Attorneys at Law	(703) 599-4325
(S) Janis Franken	Leslie County Schools	(703) 927-4443
2) (A) John Becker	McKenzie, Breakman and Becker, Inc.	(703) 929-2929
(S) No previous employer		
3) Mia Ransdia	Band, KY	(502) 224-2224

Purpose of loan: We would like to buy a boat. We vacation every summer at the lake and the kids like to water ski. We would like to borrow $10,000 for seven years and think we could afford the monthly payment of $174.

Credit report

Landon H. and Claudette Ransdia

FINANCIAL INFORMATION	ITEM	BALANCE/VALUE
Checking accounts(s):	Leslietown Bank	$2,500
Savings accounts(s):	Leslietown Bank	$1,000
	AmeriPlan Bank	$4,000
Investments:	AmeriPlan Fund	$22,000
	Digitec Corp. Stock	$16,000
Real estate:	5608 Uptown Street	$67,000*

*value of home more than what is owed on its mortgage.

REFERENCE INFORMATION

Mortgage Holder: Always pay mortgage on time. We have been doing business with this couple for 20 years.

Leslietown Bank: Currently, we have four loans and two credit cards with the applicants. Have never been late with a payment in 20 years. Credit cards are always paid off in full each month.

AmeriPlan Bank: Credit card balance fluctuates between $8,000 and $0 each year with the spring. Highest balances in late summer and the lowest in early spring

EXERCISE 13.1D

Completed Loan Application and Credit Report – Applicant 4

Loan Application, Part A

Loan amount requested: $10,000 Length of loan: 5 years

Monthly payment: $203.00 Reason for loan: Purchase a motor home

Personal Information:

(A) Applicant's name: Mr. Rhett Willis Date of birth: 11-14-55

(S) Spouse's name: Date of birth:

Marital Status (please mark one):

☐ single ☐ married ☐ widowed ☑ divorced

Address: 14 Town Street **Social Security #:** (A) 402-48-3278

City: Leslietown (S)

State: VA **Zip:** 40533

Phone: (883) 927-3345

Dependents:	**Relationship:**	**Age:**
Mary Jo Willis	daughter*	11
Melanie Willis	daughter*	9

*Mr. Willis's daughters live with their mother who receives $450 in child support each month from their dad.

Education (record only your highest level of education attained):

(A) Associate's Degree (S)

Leslietown Community College

Employment (list only the current jobs held by you or your spouse):

(A): General Electrician (S):

Self-employed

Household gross annual employment income: $35,000

Approximate net annual employment income: $30,000

Other income: $ 50

Housing Information:

Do you: ☑ own ☐ rent ☐ live with others?

Monthly mortgage or rent expense: $750

Loan Application, Part B

Current loans outstanding (List the lender, loan type, balance owed, monthly payment, and remaining period of loan):

1) Leslietown Bank Auto $9,000 $250 60 mos.

Credit cards (List the name of the lender, type of card, current balance outstanding, typical monthly payment):

1) Bank of America VIDA Card $2,000 $75

Credit Report

Mr. Rhett Willis

FINANCIAL INFORMATION	**ITEM**	**BALANCE/VALUE**
Checking accounts(s):	Sixth Bank	$1,250
	Sixth Bank	$2,900
Savings accounts(s):	Sixth Bank	$ 500
Investments:	none	
Real estate:	none	

REFERENCE INFORMATION

Landlord:	Mr. Willis has been a tenant for four years. He always pays his rent although he has been late a couple times in the last six months.
Second/Sixth Bank:	Long-standing customer. Always pays his automobile loan on time. Credit cards have outstanding balances but has made payments on them in a timely fashion.
First/Seventh Bank:	Always pays auto loan on a timely basis.
Clarence Mims:	Mr. Willis was a faithful and dedicated employee for 15 years before he resigned six months ago to start his own business. He buys equipment and supplies from us and always pays on time.
Thomas Willis (father):	Cannot cosign on a loan. He is elderly and has a limited, fixed income.

Purpose of loan: I would like to buy a used motorhome which is priced at $10,000. I think I can pay $203.00 over 5 years for the vehicle.

EXERCISE 13.1E

Applicant Summary Sheet

LOAN APPLICANT

Tell what the applicant's credit application and credit report suggest about the following:

A. Character

B. Capacity

C. Collateral

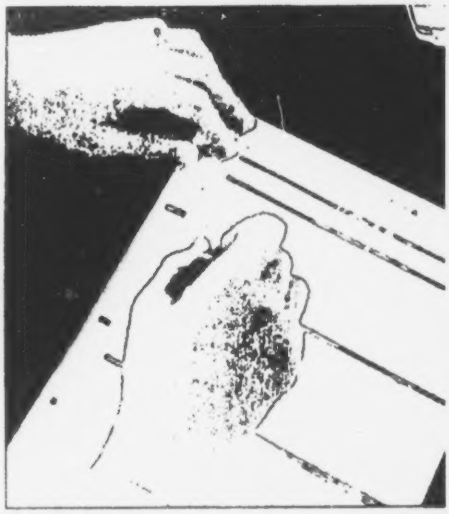
Would you lend money to this applicant?

☐ YES ☐ NO

Explain why or why not.

READING 13.1

Character Counts (So Do Capacity and Collateral)



CHARACTER. You may be a fine, upstanding citizen, but if you want to borrow money, you are going to have to prove it to lenders. When you are being evaluated for a loan, the lender will review your credit history as shown on your credit report. Your credit report is a detailing of the kinds of credit you are currently being granted, the kinds of credit you have been granted in the past, and how well you maintained that credit. The lender will review your credit report, watching for the following:

- your record of paying your credit debts on time,
- your history of managing other finances, such as a checking account,
- your employment stability, and
- your residential stability.

Young people seeking to borrow money often will discover one little problem with demonstrating their character. They can't get credit without a credit history, and they can't get a credit history without someone offering them credit. Okay, it's actually a big problem. However, there are ways to solve it. A person can begin to build a credit history in the following ways:

- Open a checking or savings account. Maintaining a checking or savings account in a responsible manner indicates stability and good money-management habits. Don't bounce a check!
- Establish a department store account or layaway plan. Department stores may allow you to open an account with a low credit limit. If not, they may have a plan that allows monthly payments toward the purchase of an item.

- ▲ Obtain a small starter loan or credit card. Consider using a savings account as collateral for a small loan at a bank. Or ask your bank officer for a "starter" credit card, which has a low credit limit or can be secured by the cash in a savings account. Borrow only what you can comfortably repay. If you obtain a credit card, pay the entire balance on time, each month!
- ▲ Get a co-signer for a loan. Ask a friend or family member to co-sign a loan for you. Be sure to pay the loan off as agreed. If you don't pay, your co-signer will have to.

CAPACITY. The lender will want to know if the borrower can afford to repay the loan. To make this determination, the lender will review the following:

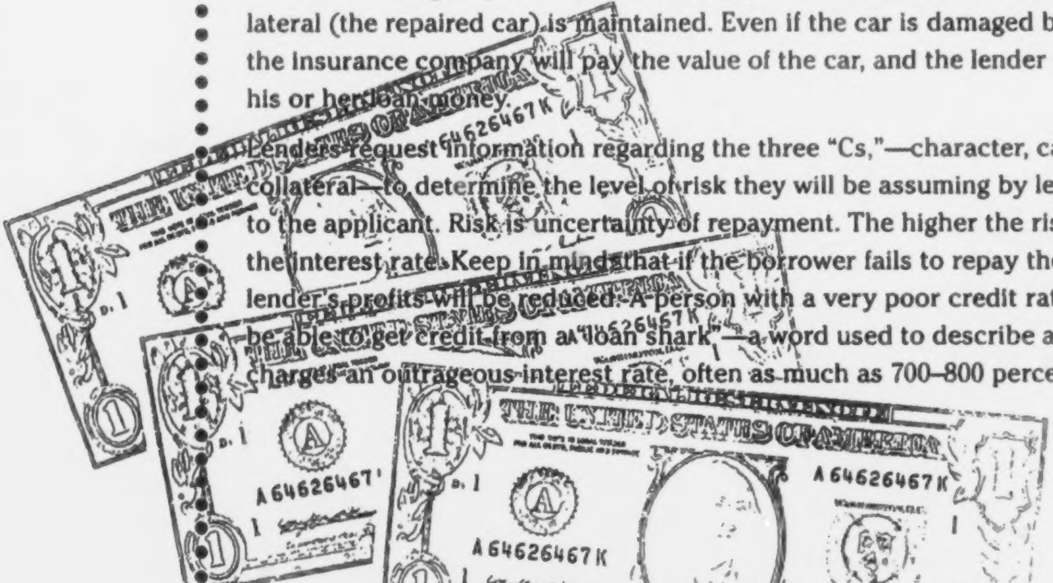
- ▲ income from all sources,
- ▲ current debts, and
- ▲ net worth (the difference between everything you own and everything you owe).

COLLATERAL. Perhaps you've heard the complaint that banks only give loans to people who don't need them. In other words, some loan applicants are told they can't get a loan because they have no assets (things of value). Their response? "If I had assets, I wouldn't need a loan!" This, actually, is an exaggeration. Lenders want to be sure the borrower has something of value that could be sold to repay the loan, just in case the borrower defaults (doesn't repay). The lender will review the following:

- ▲ The fair market value of the collateral (a car, a house, savings).
- ▲ The amount of the down payment (the amount the borrower pays up front). For instance, when you buy a car or house, you are often required to make a down payment. You put up some of the money and borrow the rest. When the borrower makes a sizeable down payment, he or she is less likely to walk away from the purchase.
- ▲ Insurance on collateral, to repair or replace the collateral if it is damaged.

Often times the collateral for a loan is the item for which the borrower took out the loan. For instance, if you borrow to purchase a car, the lender will use the car as collateral. If you don't make your payments, the lender will take possession of the car. You must carry insurance on the car in case it is damaged. That way, if the car is damaged, your insurance will pay for the repair, and the value of the collateral (the repaired car) is maintained. Even if the car is damaged beyond repair, the insurance company will pay the value of the car, and the lender will not lose his or her loan money.

Lenders request information regarding the three "Cs,"—character, capacity, and collateral—to determine the level of risk they will be assuming by lending money to the applicant. Risk is uncertainty of repayment. The higher the risk, the higher the interest rate. Keep in mind that if the borrower fails to repay the loan, the lender's profits will be reduced. A person with a very poor credit rating may only be able to get credit from a "loan shark"—a word used to describe a business that charges an outrageous interest rate, often as much as 700–800 percent.


THE UNITED STATES OF AMERICA
A 64626467 K
ONE DOLLAR

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ASSESSMENT

Using Your Evaluation Skills

You are the loan officer for Sixth Bank in Leslietown and have a completed loan application from one of your customers. Evaluate the loan application for Rhett Willis found in Exercise 13.1D. Then complete the following:

Describe the information the application and credit report of Rhett Willis gives you about the following:

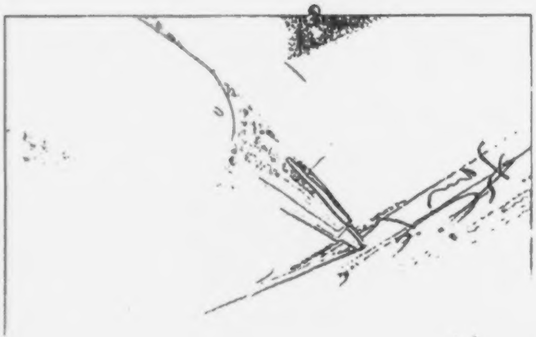
A **Character** ______________________________

B **Capacity** ______________________________

C **Collateral** ______________________________

Would you lend money to this individual? ☐ Yes ☐ No

Explain why or why not.



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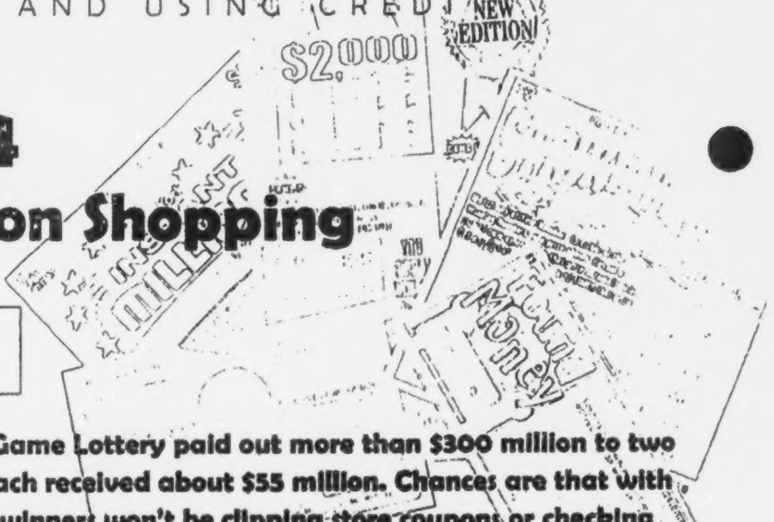


LESSON 14
Comparison Shopping

Warm-Up

In May 2000, the Big Game Lottery paid out more than $300 million to two winners. After taxes, each received about $55 million. Chances are that with that much money, the winners won't be clipping store coupons or checking newspaper advertisements for the best deal on a tube of toothpaste. But even with all that money, the winners might still shop around for a good price on a sports car, a designer wardrobe, or a piece of property on the French Riviera.

The truth is, no matter how rich or poor people are, they still need to compare prices. And for average people—those who have tight budgets and count their pennies—comparison shopping is an essential skill that can pay off in big savings and more choices. Just think about it.

Let's say there are two hot dog stands near your school, Jo's and Sam's. The hot dogs and other items at both stands are of equal quality. Jo charges $2.25 for a hot dog; Sam charges $2.75. It's only 50 cents difference; no big deal, right? **WRONG**. If you have a hot dog for lunch every day for the three years you're in middle school, you'll save $270 by buying your lunch at Jo's instead of Sam's. Simply by being a wise shopper, you'll have extra money to buy a few music CDs, a pair of athletic shoes and some new jeans, or maybe a couple of video games.

This lesson will demonstrate that wise consumers compare prices before they buy. It will show how to shop for the best deal and how to calculate whether the 14-ounce or 22-ounce box of Frosty Fire Hydrant Cereal is the best bargain. By being a careful shopper, one who evaluates prices and products, you can improve your chances of buying quality goods and services at prices that you can afford.

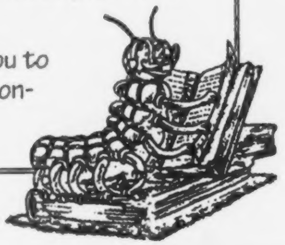
FITNESS VOCABULARY

Cost/benefit analysis – A way of examining the advantages and disadvantages of economic decisions.

Opportunity cost – The next-best alternative that is given up when a choice is made.

Deceptive practices – What a business person may do to fool a customer in order to sell the customer a good or service. Misleading prices, bait and switch, and false advertising are examples of deceptive practices. These practices are not legal.

Decision-making grid – a way of helping you to compare items so you can make a wise consumer decision.



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MUSCLE DEVELOPERS

Learn these ideas, practice them, and develop your financial fitness muscles.

- ✓ A responsible consumer compares prices and quality before making spending decisions.
- ✓ Labeling and other consumer information provide facts shoppers need in order to make responsible spending decisions.
- ✓ Comparison shopping enables you to get more value for your money.
- ✓ The opportunity cost of comparison shopping is time and income. These costs may be more than what you save by comparison shopping.
- ✓ An informed consumer is the best protection against fraud and deceit. An informed consumer knows his or her rights and responsibilities and uses them in the market.
- ✓ Consumer protection agencies provide information to and protection of the consumer.

Showing Your Strength

If you know the answers to these questions, you are developing some financial muscle.

1 **Why should consumers compare prices before buying goods and services?** *(Comparison shopping enables shoppers to buy goods at lower prices; with the money they save, consumers are able to purchase more goods and services. Therefore, a wise shopper has more choices than a careless one.)*

2 **What factors should a consumer consider when shopping comparatively?** *(Price is probably the first consideration when a person comparison shops. The consumer should also examine and compare the quality of the goods and services they plan to buy. Other factors to consider include the cost of gas if you have to drive farther to buy something at a cheaper price; the cost of shipping if a less expensive item must be mailed to you; and the time and energy you spend shopping from store to store.)*

3 **How do government regulations protect consumers?** *(Laws exist that regulate the production of goods, and many products must be approved for safety. They must meet standards of durability and quality, and the manufacturer must honor all warranties. Government also provides help for the consumer who is a victim of fraudulent business practices.)*

4 **What are the consumer's responsibilities when purchasing goods and services?** *(Consumers should read labels carefully, follow instructions, and use products in a responsible way.)*

EXERCISE

14.1

A Wise Person Once Said...

Write your impression of the meaning of the two adages given below.

> "*Penny wise, pound foolish.*"

> "*A penny saved, is a penny earned.*"

Do the two statements agree with each other, or are they contradictory? Explain.

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EXERCISE
14.2

Major Steps in a Purchase Decision

1 **Identify what you want. (Our team's product assignment is . . .)**

2 **Determine how much you can spend. (Our budget for this item is . . .)**

3 **Find out what products or services are available in your price range. (Use store ads or visits, visit web sites. List these below and along the top of your grid.)**

4 **Choose the features you would most like to have. (List the features you definitely want, those that are optional, and those you definitely do not want in the spaces to the right. List the features that you definitely want and those that are optional on the top row of the grid on the following page.)**

5 **Use the decision-making grid on the next page to analyze the alternatives.**

6 **Watch for hidden costs. (List any costs for necessary accessories; list any sales taxes or charges.)**

7 Make your choice.

Definitely want:

Optional:

Do not want:

EXERCISE 14.2 CONTINUED

Decision-Making Grid

Features ➡ ⬇ Alternatives					Total Points

EXERCISE 14.3

Poor Mrs. Amos

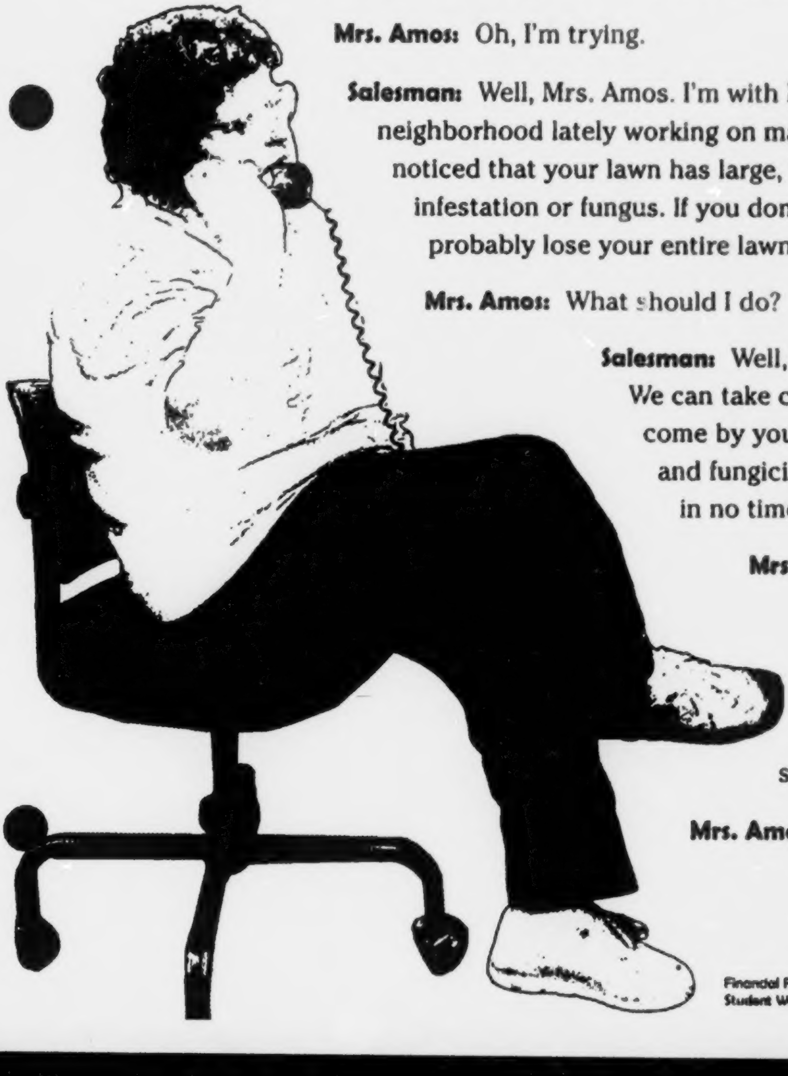
Narrator: Mrs. Amos is a widow. She lives on a fixed retirement income. The salesman works on commission, meaning he gets a percentage of each sale he makes. The salesman is using a sales technique often reported by consumers, particularly older people. In this technique, the salesman applies pressure and tries to make the consumer feel foolish if he or she doesn't make the purchase.

Telephone rings.

Salesman: Good afternoon, Mrs. Amos. How are you this afternoon?

Mrs. Amos: I'm fine.

Salesman: That's great news, Mrs. Amos. I hope you're staying out of the heat.



Mrs. Amos: Oh, I'm trying.

Salesman: Well, Mrs. Amos. I'm with Lovely Lawns. We've been in your neighborhood lately working on many of your neighbors' lawns. We've noticed that your lawn has large, brown patches, which could indicate pest infestation or fungus. If you don't address this problem soon, you will probably lose your entire lawn.

Mrs. Amos: What should I do?

Salesman: Well, Mrs. Amos, that's the good news. We can take care of that for you. Our technician will come by your home and spray our patented pesticide and fungicide. Your lawn will be full and green again in no time.

Mrs. Amos: How much will it cost?

Salesman: Well, that's the best news yet.One application costs $48, but we will do four applications through out the summer for only $150. That's a saving to you, Mrs. Amos, of $42.

Mrs. Amos: I suppose I could have one treatment.

Salesman: I wouldn't recommend that, Mrs. Amos. We do our best to get your problem cleared up, but the treatment is only effective when it is applied four times.

Mrs. Amos: I'm afraid I can't afford more treatments than one.

Salesman: Oh, Mrs. Amos. You can't afford not to take care of this problem. After all, you don't want to be known on your block as the house with the sloppy yard.

Mrs. Amos: Well, I certainly don't want that. But I don't know how I'll be able to afford $150.

Salesman: Mrs. Amos. I completely understand. That's why we will offer you the opportunity to make installment payments for just a small fee.

Mrs. Amos: How much would the payments be?

Salesman: Well, for you, Mrs. Amos, we'll simply divide your cost into five easy payments.

Mrs. Amos: Well, I don't know. This seems like a large expense. I'm on a fixed income.

Salesman: We have many retirees as customers, Mrs. Amos. You, as well as they, can't be expected to do this kind of work yourself.

Mrs. Amos: I still don't know if I should do this.

Salesman: Mrs. Amos, if you don't mind my saying, I don't know how you can pass this up. What will your neighbors think of you if your yard becomes even worse? It's already looking pretty bad.

Mrs. Amos: Well, I guess I'll do it then.

Salesman: Mrs. Amos, you've made the right decision. We'll be out tomorrow to begin the treatments. Please hold the line so that we may make a tape-recorded verification of your purchase.

Narrator: Mrs. Amos verified the sale and began the treatment. She later began receiving her installment invoices charging one-fifth of the fee plus a 20 percent interest rate.

THE END

After reading or listening to this situation, answer the following questions.

1 **What tactics did the salesman use to convince Mrs. Amos to sign up for the service?**

2 **If Mrs. Amos was uncomfortable with the salesman's tactics, what should she have done?**

3 **Why did Mrs. Amos stay on the phone and ultimately buy the service?**

EXERCISE 14.4

The Worm Has Turned

Salesman: Hi, I'm Steve Swank. What can I do for you?

Tina Allen: I'm interested in the 1992 XYZ on your lot. What can you tell me about it?

Salesman: Oh, that's a nice one. I guess you just recently got your driver's license. Am I right?

Mr. Allen: Yes, Tina just got her license. She'll need a car to get back and forth to school. We simply have too many people and not enough cars.

Salesman: Boy, I know how that goes. I have three teenagers myself. Is this your first driver?

Mr. Allen: Yeah, Tina's our first.

Salesman: Well your little girl really knows her cars, doesn't she? She's picked the peach of the lot.

Tina Allen: *(slightly exasperated)* Could you tell us a little about the car?

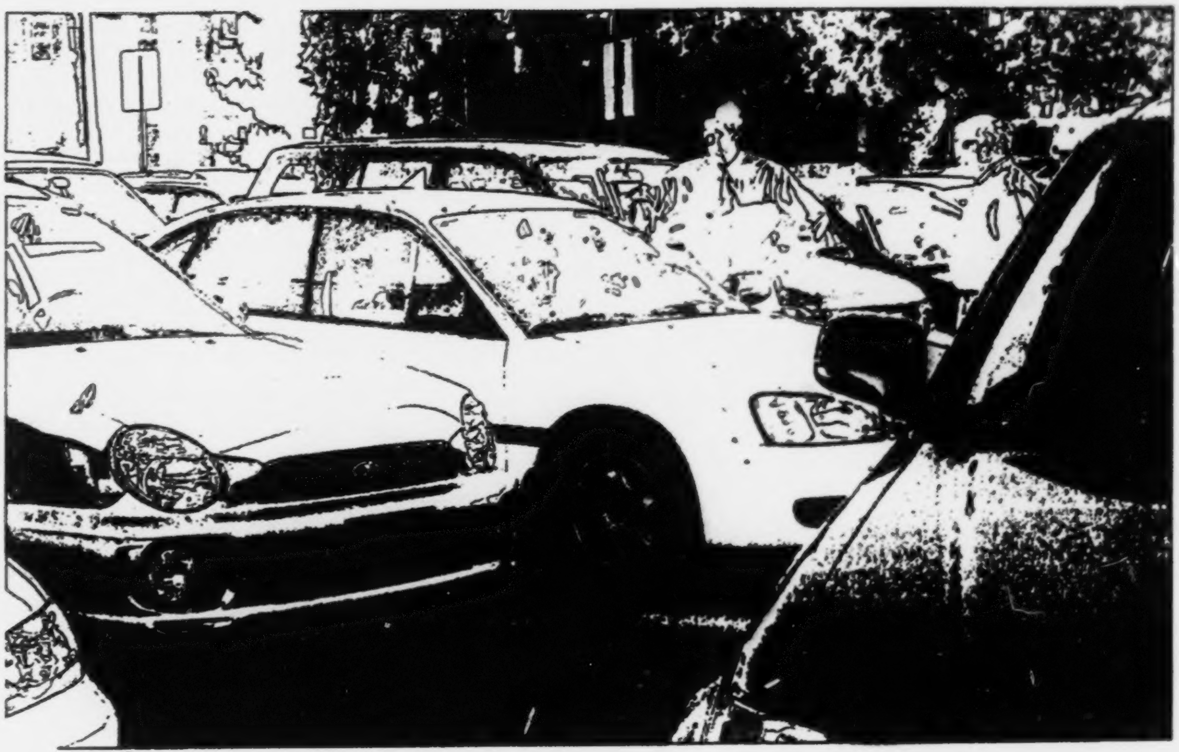
Salesman: Certainly. I see in the file that it has 160,000 miles on it. Those were all highway miles, Tina. May I call you Tina? *(He doesn't wait for an answer, but continues his sales pitch.)* The previous owner never had a bit of trouble with it. It is loaded with options, too. You can see the great shape it's in.

Tina Allen: Could you tell me your asking price?

Salesman: Well, Tina, we've listed it for $5,000, but it's been on our lot for over a week now, and we like to turn our inventory over much more frequently than that. We have very strict standards for the used cars we will place on our lot, so they usually go very fast. As a matter of fact, I had a customer who was very interested in this car in here just yesterday. He said he would be stopping back later today.

Tina Allen: $5,000 is a little out of my price range. Could you do anything for us?

Salesman: Gee, I don't know, Tina. With that customer coming back in this afternoon, and all, I might be doing myself damage by coming down on the price. But, I like you. And, I have teenagers myself. I know how important it is to be seen in a hot car, am I right? *(The salesman winks at Mr. Allen.)* I'll tell you what. I'll come down to $4,800.



Tina Allen: That's still a little high. Could you bring the price down to $4,200?

Salesman: Wow, that would certainly put us at a loss. I can't see any way for us to come down that low for this fine car.

Tina Allen: Well, $4,200 is all I have budgeted for a car. I can't go any higher.

Salesman: I see your dilemma. And, I like you two. Let me go ask my manager. But, I've got to warn you. He's going to think I'm nuts for even suggesting this price.

The salesman meets with the manager in the corner of the room. The two act as though they are arguing over the price. The salesman comes back to the desk.

Salesman: Mr. Allen, Tina, I tried. He would only come down to $4,500. That's his final offer. Even at that price, we're losing money on this car. He thinks I'm crazy. I had to pull in some favors for this one. But, as I told him, you're nice people who need a car, and that's why we're in business. We figure you'll tell your friends that you got a good deal here.

Tina Allen: That's still above my budget.

Salesman: Tina, we can certainly work out a payment plan to fit your budget. Don't think of it as $4,500. Think of it as only $125 a month. You can certainly afford that, can't you Tina?

Tina Allen: For how many months?

Salesman: Only 60.

Tina Allen: That's a long time. The car might not even last that long.

Salesman: I don't see why not. It's been very well maintained. You know, my son's friend drives one of these, and he has 250,000 miles on it. It runs like a top. He's never had a day of trouble.

Mr. Allen: Well, I don't know.

Salesman: Mr. Allen, Tina, I can't tell you which way you should go on this. All I can say is that this is one nice vehicle, and I have a customer ready to buy it this afternoon.

Tina Allen: Well, I guess we'll have to leave it for your other customer. Thanks for your time. Good-bye.

After reading or watching this exercise, answer the following questions.

1 **In what ways did the salesman try to get Tina and Mr. Allen to see him as a friend?**

____

____

2 **In what ways did the salesman try to push Tina and her dad to buy the car?**

____

____

3 **Did you think Tina was going to buy the car?**

____

____

4 **Do you think Tina did the right thing?**

____

____

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READING
14.1

Comparison Shopping

About Comparison Shopping

Comparison shopping is the process of considering prices and features of similar products before making a purchase decision. The more expensive or complex an item, the more a smart shopper will want to compare a variety of options before choosing one. Comparison shopping must take into account a variety of factors such as differences in features, sizes, product quality and performance, price, and service agreements.

Advantages of Comparison Shopping

- You can save money, since prices for the same or similar products may vary dramatically from place to place.
- You may be able to get more features or value for the same amount of money.
- You can buy a better quality product that will last longer or perform better.
- You can learn about options and products you weren't aware of before.
- You will feel more secure that your money was spent wisely.

Disadvantages of Comparison Shopping

- Comparison shopping takes time, which could be used to earn money, do 'fun things,' or take care of family responsibilities.
- Comparison shopping may cost money, for instance, for telephone calls or gas to visit different stores.
- The savings from comparative shopping, especially for lower priced items, may be less than the cost of your time, gas, or other expenses.

Requirements for Comparison Shopping

- Access to *reliable information.*
- *Time* to check with a variety of vendors, and to wait for sales, special selling seasons, or inventory closeouts.
- The *money* to purchase an item quickly if a tremendous opportunity arises.

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READING 14.2

Liar, Liar, Pants on Fire

Deceptive advertising. Producers always want to present their products in the best light. Some advertisements may contain out-and-out falsehoods, while others simply may not present the whole story. The best advice is, if it seems too good to be true, it probably is! Toothpaste advertisements may promise whiter teeth in 30 days. How, exactly, is that comparison made? How often must you use the toothpaste in order to achieve the promised results? Won't most toothpastes whiten teeth? When the packaging shows a statement that "9 out of 10 dentists recommend this Brand X," does it mean they actually recommended Brand X or does it mean they recommended the *ingredients* in Brand X (which are the exact same ingredients in a dozen other brands)?

Bait and switch. While seeking information by reading through store ads, you will often come across some mighty good bargains, usually presented on the front page. Most often these are perfectly legitimate sales designed to bring your attention to the store. However, some companies may engage in an illegal practice called "bait and switch," when the quantities of the sale item are low or maybe not available at the store at all. The salesperson will apologize for the unavailability of the sale item but direct the consumer's attention to a much nicer, more expensive, item offered at a similar discount. The seller is "baiting" the consumer by offering the terrific sale item and then "switching" the consumer's attention to another, more expensive, product. The consumer, already at the store and ready to make a purchase, will often buy the alternative item. He or she may later discover that the item purchased was available at a lower price elsewhere.

Pricing. Although a store cannot claim that the price of a product has been reduced if it hasn't been, it can use other terminology that deceives the consumer into thinking that the item is being offered at a lower price. For instance, some stores may cover the original shelf tag with a brightly colored tag stating "Special Value" or "In-store Special." The store isn't saying that this price is lower than the retail price, but the implication to the consumer is that the price for the good has been reduced. Here's a tip: pull the colorful tag aside and observe the regular price of the good. You might find that the prices are identical.

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ASSESSMENT

Major Steps in a Purchase Decision

1 **Identify what you want.**

2 **Determine how much you can spend.**

3 **Find out what products or services are available in your price range. (Use store ads or visits, visit web sites. List these along the left side of your grid.)**

4 **Choose the features you would most like to have. (List the features you definitely want, those that are optional, and those you definitely do not want in the spaces to the right. List those that you definitely want and those that are optional along the top of your grid.)**

5 **Use the decision-making process.**

6 **Watch for hidden costs. (List any costs for necessary accessories; list any sales tax variance.)**

7 Make your choice.

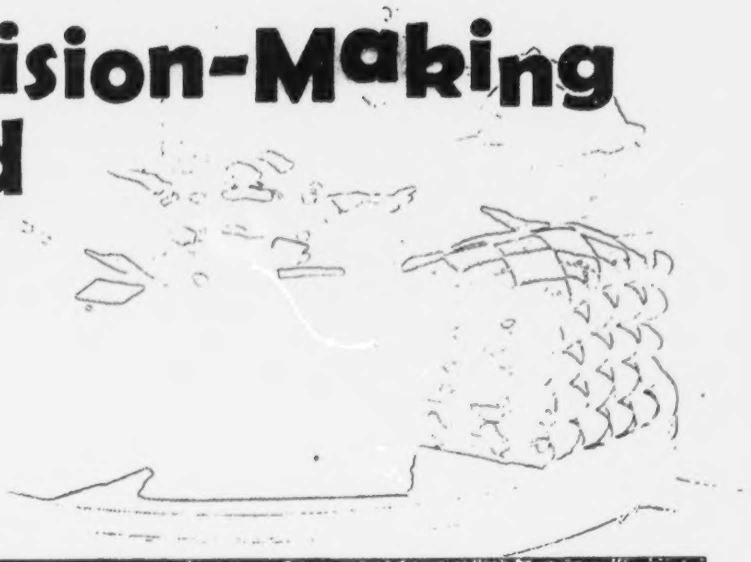
Definitely want:

Optional:

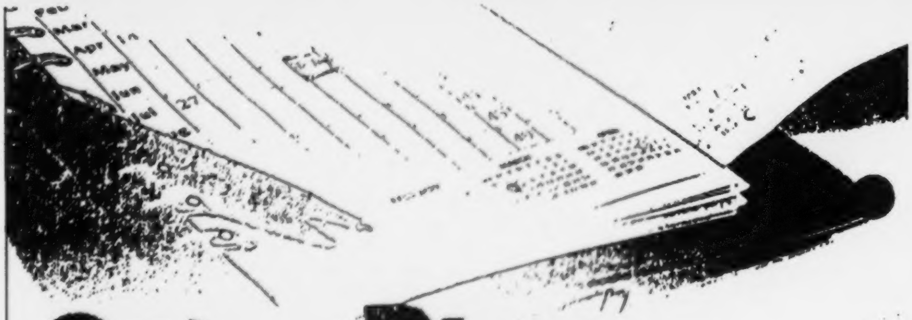
Do not want:

ASSESSMENT CONTINUED

Decision-Making Grid



Features➡ **⬇Alternatives**					**Total Points**



THEME 5

Get a Plan: Get a Grip on Life

(Money Management)

Introduction

Newspaper reporters are taught to answer these questions: Who? What? Where? When? How? Why? You've probably been told to think about those same questions when you study for a science or social studies test, or when you analyze a novel or short story. The W and H Questions can help you make sense of important information, and they can also apply to financial matters.

Who?	Of course, it's you.
What?	Learn how to manage money
Where?	Bank, credit union, savings and loan, stock market, Internet, newspapers, magazines.
When?	The sooner, the better; right now is a good time to start.
How?	Budgeting, saving, investing.
Why?	To prepare for a secure financial future.

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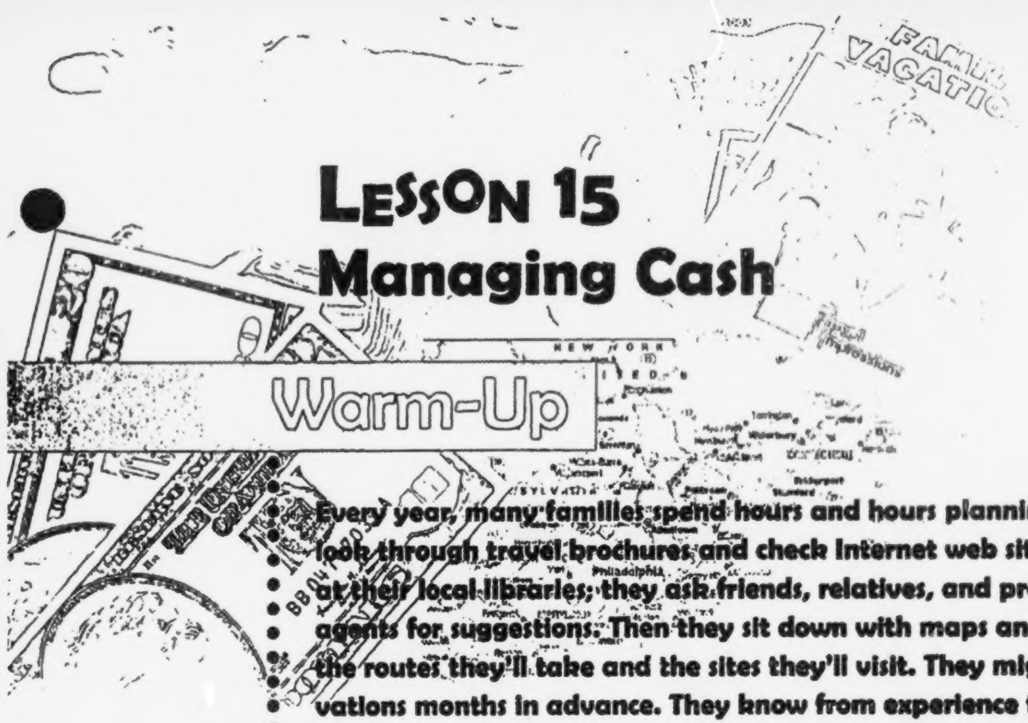
LESSON 15
Managing Cash



Warm-Up

Every year, many families spend hours and hours planning a vacation. They look through travel brochures and check Internet web sites. They do research at their local libraries; they ask friends, relatives, and professional travel agents for suggestions. Then they sit down with maps and itineraries, planning the routes they'll take and the sites they'll visit. They might even make reservations months in advance. They know from experience that the better their plan, the more likely they are to have an enjoyable time.

Being a good money manager requires planning too. The good news is that you don't have to be a professional to be good at it. Just as families learn from their previous vacation experiences, you can review the strengths and weaknesses of your past spending decisions. Just as travel agents draw routes and select highways to specific end points, you can map out your goals for financial success. These goals become the foundation for your budget, which is a statement of your projected income and expenses. Then, when your budget is in place, you'll be ready to save and spend responsibly. Of course, just as an unexpected detour means a change of plans on a vacation, unforeseen circumstances may cause you to adjust your budget. For example, your class trip may cost more than you expected, or you may have to get a new band uniform. That's when an emergency fund comes in handy.

In this lesson, you will learn how to design a budget. You will start by examining your expenses; then you will evaluate your income. Being able to keep your expenses lower than your income will help you meet short-term goals now. More important, sticking to a sensible budget is a skill that you will use as you work to achieve long-term goals for your future.

FITNESS VOCABULARY

Fixed expenses – Expenses that cannot be easily changed and that remain essentially the same from month to month (e.g., monthly car loan payment).

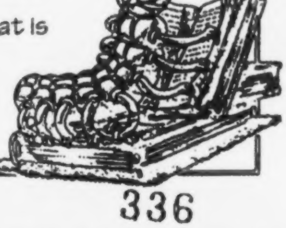
Variable expenses – Expenses that can be controlled and that change from month to month (e.g., long-distance telephone bill).

Periodic income – Income not earned on a regular schedule (e.g., occasional baby-sitting, summer jobs, gifts from relatives).

Budget – A plan for managing income and expenses.

Opportunity cost – The next-best alternative that is given up when a choice is made.

Trade-off – Giving up some of one thing in order to acquire more of another.



MUSCLE DEVELOPERS

Learn these ideas, practice them, and develop your financial fitness muscles.

- ✓ Successful money management requires a realistic analysis of income and expenses.
- ✓ Saving should be considered a fixed expense. By "paying yourself first" you can develop the habit of regular saving for goods and services you want to buy in the future.
- ✓ Periodic adjustments of a budget will occur as income or expenses change.
- ✓ If income is used to pay one expense, it cannot be used for something else. The opportunity cost is the next-best alternative.

Showing Your Strength

If you know the answers to these questions, you are developing some financial muscle.

1 **What is meant by the expression 'pay yourself first?'** *(Most financial advisors suggest saving a fixed percentage [usually 10–15%] of your income. If your bank allows direct deposit of your paycheck, you can instruct the bank to put a certain amount into your savings account and the rest into your checking account every time you get paid. That way, you will develop a regular saving plan.)*

2 **Is a budget necessary if a person has only periodic income and expenses?** *(Even if you don't have a regular job, or monthly rent or car payments, a budget is still a good idea because it will help you analyze your earnings and spending habits.)*

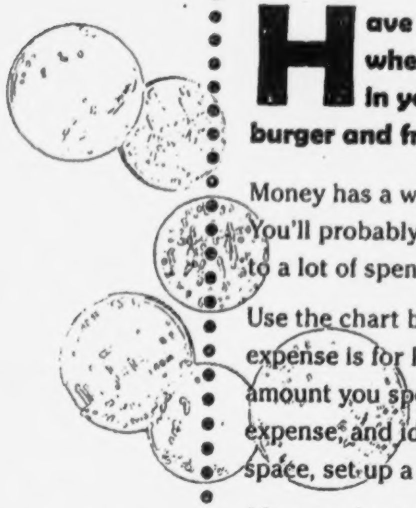
3 **Why should a student have a budget?** *(Surveys indicate that U.S. students spend more than $20 billion a year, most of it on food, clothing, and entertainment. Creating a budget can help you achieve short-, medium-, and long-term savings goals for buying the things you want.)*

4 **What is the best way to set up a budget?** *(There is no right or wrong way to create a budget. Some people use computer programs; others estimate their income and expenses with paper and pencil. The method is not so important as having the determination to stick to the budget that you design.)*

5 **How important is record-keeping?** *(After a budget is established, it's a good idea to record all actual income and expenses. This information can help determine whether a budget is realistic, or if it has to be adjusted.)*

EXERCISE 15.1

Keeping Track of Cash Flow



Have you ever spent a day at the mall with your friends and wondered where all your money went? You may have started the day with $50 in your wallet, and by 8 p.m. you don't even have enough cash for a burger and fries at the local fast food restaurant. What happened?

Money has a way of getting spent—a little bit here, a little bit there—almost on its own. You'll probably be surprised to see how a little bit here and a little bit there can add up to a lot of spending in just a week.

Use the chart below to record every expense you have for a week. Indicate whether the expense is for Food (**F**), Clothing (**C**), Entertainment (**E**), or Other (**O**) by placing the amount you spend in that column. Also note if it was a planned (**PL**) or unplanned (**UN**) expense, and identify each expense as Fixed (**FX**) or Variable (**VR**). If you need more space, set up a separate sheet of paper in the same way.

After you have kept this record of expenses for one week, total each column with numbers. This tells you how much you spent in each category. Add those figures together for a grand total. Use the grand total to calculate the percent spent for each category. Count up how many expenses were planned and how many were planned. Do the same for the fixed and variable column. Now you are ready to answer the questions on the next page.

Date	Item/ Service	(F) Food	(C) Clothing	(E) Entertainment	(O) Other	(PL) or (UN)	(FX) or (VR)
Ex. 5/1	Snacks	$1.56				UN	VR
Totals							
Percent							

Grand Total (F +C + E + O)

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Financial Fitness for Life: Shaping Up Your Financial Future Student Workouts, ©National Council on Economic Education

Use the information on your expense chart to answer these questions:

1. **For which of your expenses did you plan ahead of time?**

2. **Which expenses were unplanned—that is, bought on the spur of the moment?**

3. **If you had the week to do over, which expenses would you change? Explain.**

4. **Which unplanned expenses were bad decisions? Explain.**

5. **Which unplanned expenses were good decisions? Explain.**

6. **Which is the easiest expense to decrease, fixed or variable?**

7. **Which of the expenses would be easiest for you to decrease if you needed money for an emergency purchase?**

EXERCISE 15.2

Living Within Their Means

Read one of the case studies on this or the following pages and decide whether the person stayed within his or her budget. (NOTE: All incomes are *after* income taxes have been paid.) Then answer questions 1-4 at the end of the exercise. After each group gives a report, answer questions 5-9.

Case Study A

Lauren earns $43,000 a year as a teacher in a booming suburban school district. She has the following monthly expenses:

Savings	$ 200
Rent/home mortgage	650
Utilities	300
Phone/cable/Internet	150
Food/groceries	225
Car payment	550
Insurance (car/rental/home)	156
Transportation, incl. gas	77
Charity	80
Clothes	55
Loan payments	450
Entertainment	200
Services (cleaning, hair dresser)	150
Other	166

Did Lauren spend more or less than she earned? _______
How much?_______

Case Study B

Brian has a retirement pension of $35,000 a year. He has the following monthly expenses:

Savings	
Rent/home mortgage	$ 185
Utilities	725
Phone/cable/Internet	240
Food/groceries	175
Car payment	207
Insurance (car/rental /home)	365
Transportation, incl. gas	148
Charity	88
Clothes	89
Loan payments	115
Entertainment	307
Services (cleaning, hair dresser)	150
Other	125
	185

Did Brian spend more or less than he earned? _______
How much?_______

Financial Fitness for Life: Shaping Up Your Financial Future Student Workouts.

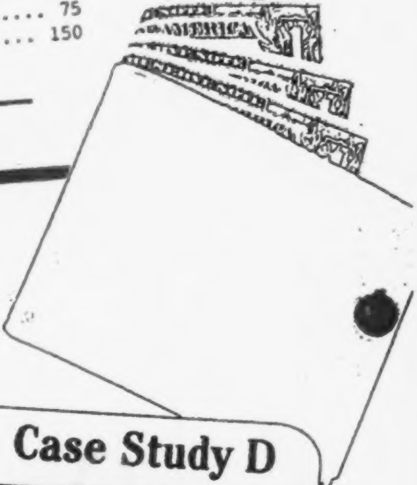
Case Study C

Maria is a pre-med student, but she works part-time as a lab assistant at the university. She earns $37,000 a year and has the following expenses.

	$ 100
Savings	575
Rent/home mortgage	285
Utilities	225
Phone/cable/Internet	375
Food/groceries	125
Car payment	220
Insurance (car/rental/home)	47
Transportation, incl. gas	20
Charity	185
Clothes	607
Loan payments	165
Entertainment	75
Services (cleaning, hair dresser)	150
Other	

Did Maria spend more or less than she earned? ________

How much? ________



Case Study D

Suzanne is the executive vice president of a Silicon Valley computer-engineering firm. She earns $130,000 a year and has the following expenses.

Savings	
Rent/home mortgage	$1,485
Utilities	4,005
Phone/cable/Internet	550
Food/groceries	275
Car payment	275
Insurance (car/rental/home)	750
Transportation, incl. gas	625
Charity	375
Clothes	550
Loan payments	225
Entertainment	750
Services (cleaning, hair dresser)	450
Other	365
	255

Did Suzanne spend more or less than she earned? ________

How much? ________

Case Study E

Marcus is an attorney working as a prosecutor in a small town in Iowa. He earns $67,000 a year and has the following expenses.

Savings	$ 650
Rent/home mortgage	1,275
Utilities	285
Phone/cable/Internet	95
Food/groceries	275
Car payment	350
Insurance (car/rental/home)	215
Transportation, incl.gas	85
Charity	95
Clothes	150
Loan payments	1,385
Entertainment	285
Services (cleaning, hair dresser)	95
Other	275

Did Marcus spend more or less than he earned? ________

How much? ________

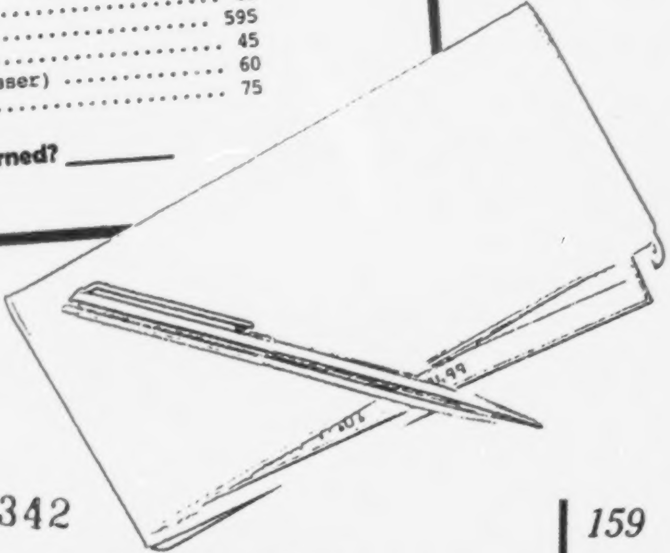
Case Study F

Jeff is a successful superintendent for a small construction company in Texas. He earns $28,950 a year and has the following monthly expenses:

	$ 200
Savings	750
Rent/home mortgage	65
Utilities	45
Phone/cable/Internet	95
Food/groceries	155
Car payment	115
Insurance (car/rental/home)	115
Transportation, incl. gas	55
Charity	40
Clothes	595
Loan payments	45
Entertainment	60
Services (cleaning, hair dresser)	75
Other	

Did Jeff spend more or less than he earned? ________

How much? ________



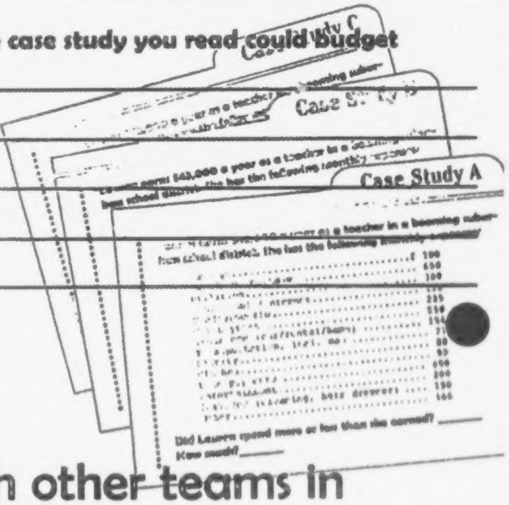
Respond to the following questions about the person whose case study your group analyzed:

1 **The person's car needs a new timing belt at a cost of $700. What changes would you make in his/her budget?** ____________________

2 **If the person increases savings by $175 for four months in order to buy the timing belt, what are some trade-offs to consider?** ____________________

3 **Remember that opportunity cost is the next-best alternative that is given up when a choice is made. Based upon the choice s/he made to increase savings for the timing belt, what is the opportunity cost?** ____________________

4 **Make some suggestions for how the person whose case study you read could budget her/his income and expenses more wisely.** ____________________



Exchange information with other teams in your class to answer these questions:

5 **Who had the most money left at the end of the month?**

____

6 **Who overspent the budget?**

____

7 **Which worker had between $100 and $200 left at the end of the month?**

____

8 **How much income did Marcus have left over at the end of the month?**

____

9 **If Lauren chooses to take a trip this month that costs $500, what are some trade-offs she'll have to consider?** ____________________

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ASSESSMENT 15.1

Tomorrow Never Budgets

Evaluate the budget of James Bond, double-agent and all-around cool guy. Use the income and expense information given, and analyze his money management skills.

Income

Annual salary (take-home, net)	$1,575,654
Bonus for apprehending spies (net)	65,000
Gifts from foreign dignitaries (net)	14,000
Auto, meals, travel and clothing allowance	320,000
Total Income	______

Expenses

Savings	$165,987
Restaurant meals	82,999
Air plane tickets	89,454
Auto cost and maintenance	87,500
Clothing	75,009
Concert tickets	5,367
Opera tickets	4,389
Ballet tickets	3,567
Furniture	76,456
Oil paintings	235,643
Yacht and maintenance	132,654
Private plane and maintenance	354,762
Maintenance of home in France	113,231
Maintenance of home in Colorado	97,543
Maintenance of home in Hawaii	175,432
Charity	274,123
TOTAL EXPENSES	______

- ▲ Are James Bond's expenses (<, =, >) his income? (Circle the right answer.)
- ▲ If Bond decides to buy a new plane for $175,000, what is his opportunity cost? ______
- ▲ Bond's financial advisor said he should save 15% of his income; how much is that? ______
- ▲ If Bond follows the advisor's advice, what are some trade-offs he'll have to consider? ______

LESSON 16

Choosing and Using a Checking Account

Warm-Up

Buying a new stereo is not a snap decision. You have to know what the system has to offer: what kind of speakers does it have? Is the CD player programmable? How many stations on the FM band can be stored in its memory?

In addition, you have to think about how you will use the stereo. Do you have lots of old cassette tapes? If so, you'll want a tape player, maybe even a double. Does your music collection include old vinyl LP's of the Beatles from your father's collection? That means you'll need a turntable, too. Is your room tiny and cramped? That means you'll probably want small components that deliver big sound. And if you share a room, you better make sure you have headphones too!

FITNESS VOCABULARY

ATM – Automatic teller machine.

Debit card – A plastic card that is used to deduct funds automatically and immediately from a checking account.

Deposit – Adding money to an account.

Withdrawal – Subtracting money from an account.

FDIC – Federal Deposit Insurance Corporation. Institutions that have an FDIC designation guarantee your savings up to $100,000.

Interest – Money paid for the use of someone else's money.

Service charge – The fee charged by a financial institution for certain services it provides to customers.

Overdraft – Writing a check for an amount that is more than is in an account.

PIN – Personal Identification Number; a confidential code used to access private financial information or to make a transaction.

If you analyze how you'll use your stereo and check out lots of options before you buy, you'll most likely choose the one that's best for you. Deciding on the right checking account (at a bank, savings and loan, credit union, etc.) is somewhat like deciding on the right stereo. You need to know what's available and how you'll use it.

This lesson introduces you to checking accounts. You'll learn about the advantages and disadvantages of a checking account, as well as how to open and use one sensibly. By making sound decisions (either for a stereo or for where to put your hard-earned money), you'll be well on your way to a future of financial security.

MUSCLE DEVELOPERS

Learn these ideas, practice them, and develop your financial fitness muscles.

✓ **When choosing a checking account, you should examine a number of alternatives, based on criteria that are important to you, such as the bank location, fees, services offered, etc.**

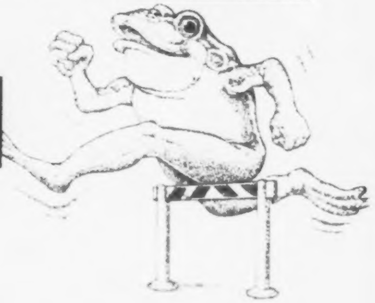
✓ **Electronic and online banking offers convenience but also involves issues of confidentiality.**

✓ **It is the responsibility of the consumer to keep track of all transactions involving a debit card.**

✓ **All financial institutions have fees and charges for various services. It is wise to find out about the costs of an account before opening one.**

✓ **A checking account is a real convenience, but you have to be responsible about recording all deposits and withdrawals.**

✓ **Never share your confidential financial information with anyone.**



Showing Your Strength

If you know the answers to these questions, you are developing some financial muscle.

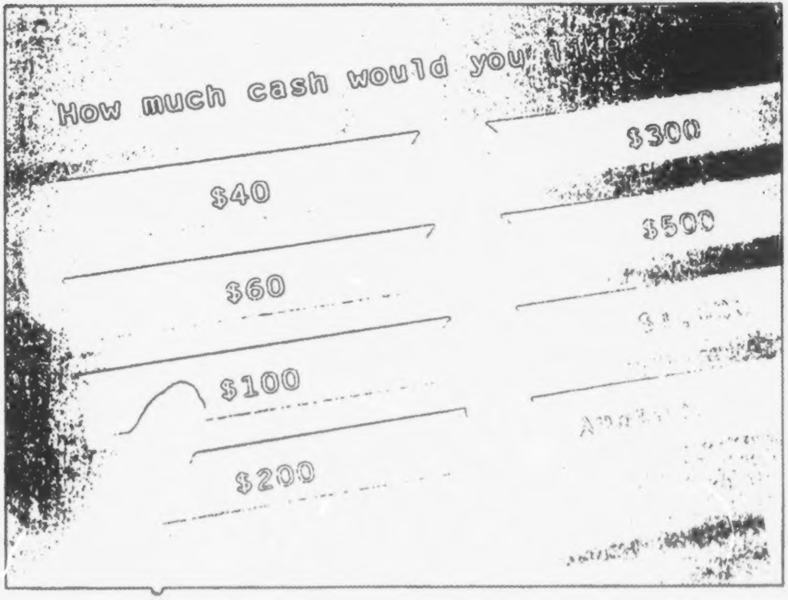
1 **How does an automatic teller machine (ATM) work?** *(By inserting a plastic card and your PIN [personal identification number], you can use an ATM to make deposits or withdrawals in a checking or savings account.)*

2 **What is the difference between a debit card and a credit card?** (*A debit card is like a plastic checking account. When you use a debit card, you are actually withdrawing money from an existing account. If you try to use your debit card for more than you have in the account, you'll get an error message, and your purchase will be denied. A credit card, on the other hand, is like a loan. When you sign a credit card receipt you are agreeing to repay the credit card company—in the future—the amount of the purchase. If you don't repay the full amount by a certain date, you will have to pay interest.)*

3 **What happens if you write a check for more than you have in your checking account?** *(Your check will be returned to you and you will receive an NSF [non-sufficient funds] notice. Most savings institutions will add an NSF charge to your monthly statement as a penalty.)*

4 **What other service charges might be added to your account?** *(Some financial institutions apply fees for every check you write in certain checking accounts or charge a monthly service fee. Other fees may be charged if your balance is too low, if you use the ATM of another financial institution, or if you require the services of a teller. Fees are usually charged for other special services, such as obtaining traveler's checks or money orders.)*

5 **Is money always safe in a savings or checking account?** *(If a financial institution displays the FDIC sign [Federal Deposit Insurance Corporation], you can be sure that your money in checking or savings account is insured up to $100,000. Even in bad economic times, you're guaranteed to get all your money if you need to withdraw it—up to $100,000.)*



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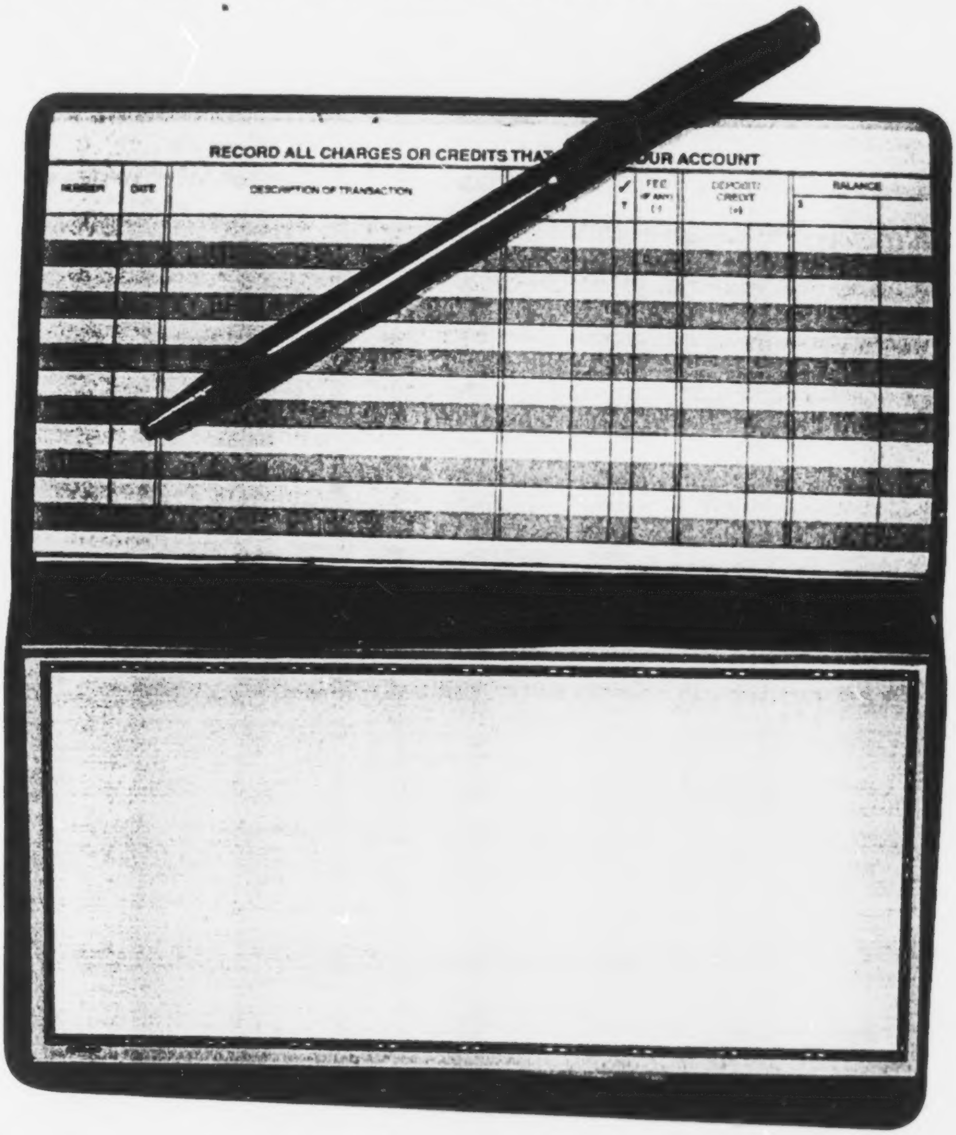
XERCISE
16.1

Design a Check

You've probably handled a check or two. Could you reproduce a check without looking at one? Use the following area to design a check. Be sure to include all of the information provided on a check.


RECORD ALL CHARGES OR CREDITS THAT OUR ACCOUNT
NUMBER
DATE
DESCRIPTION OF TRANSACTION
FEE (IF ANY)
DEPOSIT/CREDIT (+)
BALANCE

EXERCISE 16.2

Using a Checking Account

Complete the checkbook register with the following transactions. Use Exercise 16.3 to write a check for those involving a payment by check.

Sept. 2	Beginning balance in your checking account was $145.52.
Sept. 4	Wrote check #8452 for $9.88 to Gibson's Record Shop for a new tape.
Sept. 8	Deposited paycheck for $66.95 from part-time job.
Sept. 11	Wrote check #8453 for $24.50 to Grayson's Service Station for oil change.
Sept. 15	Wrote check #8454 for $15.00 to Acme Jewelers as deposit for class ring.
Sept. 19	Stopped by ATM to withdraw $40 cash.
Sept. 22	Deposited paycheck for $63.88.
Sept. 23	Wrote check #8455 for $5.00 to pay back borrowed money.
Sept. 26	Wrote check #8456 for $13.75 to American Publishing for subscription.
Sept. 27	Wrote check #8457 for $28.63 to Neighbor's Store for mother's birthday gift.
Sept. 29	Deposited $10.00 earned for baby-sitting.
Sept. 30	Automatic withdrawal of $47.56 from checking account for monthly auto loan payment.
Oct. 1	Monthly statement showed a service charge of $4.90 was debited from account.

PLEASE BE SURE TO DEDUCT CHARGES THAT AFFECT YOUR ACCOUNT

CHECK #	DATE	TRANSACTION DESCRIPTION	WITHDRAWAL/ SUBTRACTIONS	✓ T	FEE IF ANY	DEPOSIT/ ADDITIONS	BALANCE
							145 52

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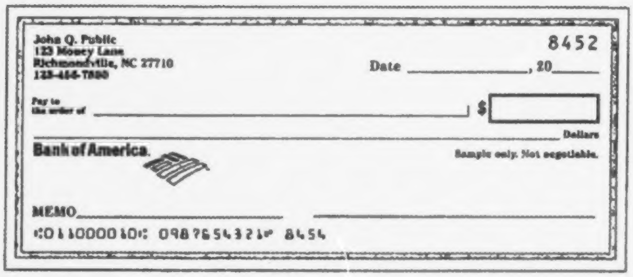
Sample Checks



John Q. Public
123 Money Lane
Richmondville, NC 27710
123-456-7890

8452

Date ____________, 20______

Pay to the order of ______________________________ $

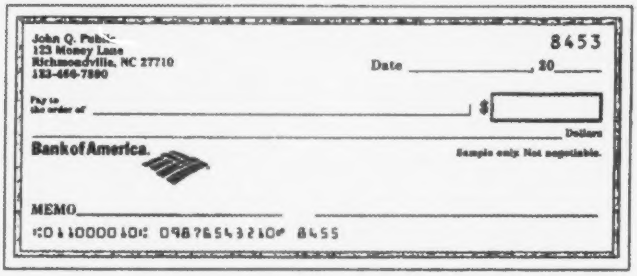
______________________________ Dollars

Bank of America.

Sample only. Not negotiable.

MEMO____________

⑆011000010⑆ 0987654321⑈ 8454



John Q. Public
123 Money Lane
Richmondville, NC 27710
123-456-7890

8453

Date ____________, 20______

Pay to the order of ______________________________ $

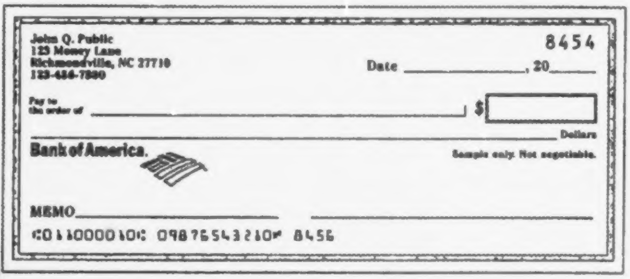
______________________________ Dollars

Bank of America.

Sample only. Not negotiable.

MEMO____________

⑆011000010⑆ 09876543210⑈ 8455



John Q. Public
123 Money Lane
Richmondville, NC 27710
123-456-7890

8454

Date ____________, 20______

Pay to the order of ______________________________ $

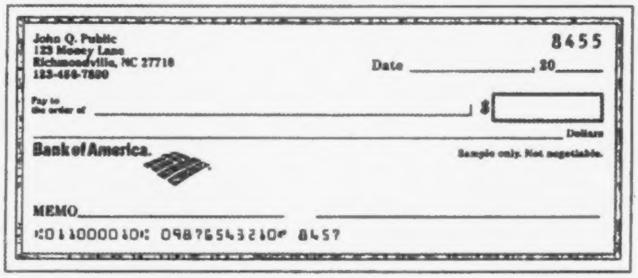
______________________________ Dollars

Bank of America.

Sample only. Not negotiable.

MEMO____________

⑆011000010⑆ 09876543210⑈ 8456



John Q. Public
123 Money Lane
Richmondville, NC 27710
123-456-7890

8455

Date ____________, 20______

Pay to the order of ______________________________ $

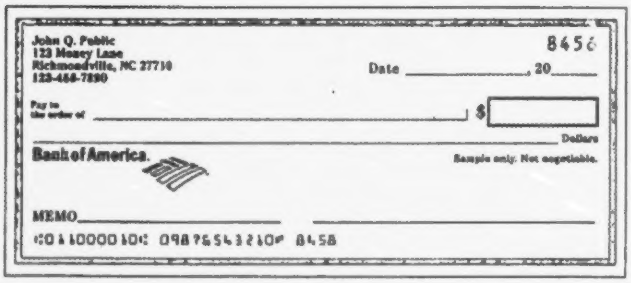
______________________________ Dollars

Bank of America.

Sample only. Not negotiable.

MEMO____________

⑆011000010⑆ 09876543210⑈ 8457



John Q. Public
123 Money Lane
Richmondville, NC 27710
123-456-7890

8456

Date ____________, 20______

Pay to the order of ______________________________ $

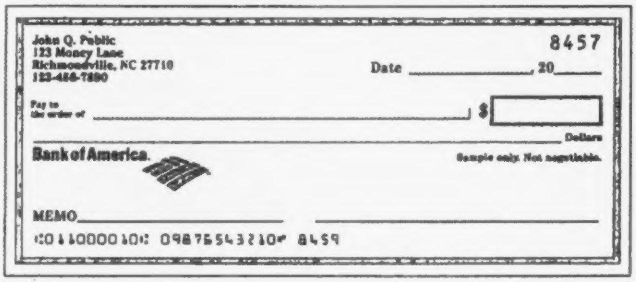
______________________________ Dollars

Bank of America.

Sample only. Not negotiable.

MEMO____________

⑆011000010⑆ 09876543210⑈ 8458



John Q. Public
123 Money Lane
Richmondville, NC 27710
123-456-7890

8457

Date ____________, 20______

Pay to the order of ______________________________ $

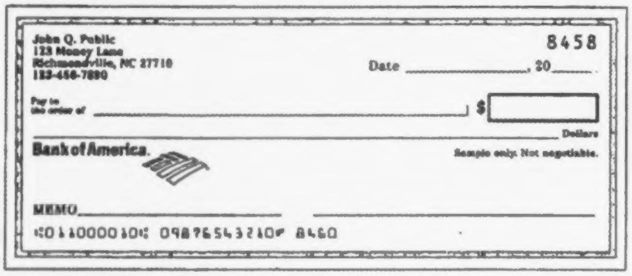
______________________________ Dollars

Bank of America.

Sample only. Not negotiable.

MEMO____________

⑆011000010⑆ 09876543210⑈ 8459



John Q. Public
123 Money Lane
Richmondville, NC 27710
123-456-7890

8458

Date ____________, 20______

Pay to the order of ______________________________ $

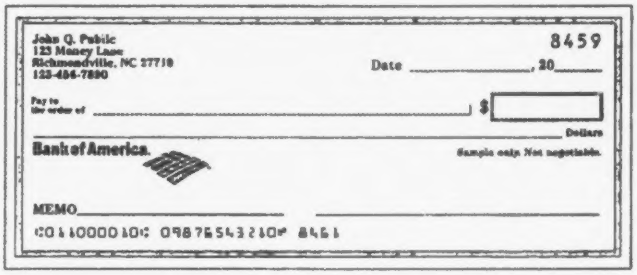
______________________________ Dollars

Bank of America.

Sample only. Not negotiable.

MEMO____________

⑆011000010⑆ 09876543210⑈ 8460



John Q. Public
123 Money Lane
Richmondville, NC 27710
123-456-7890

8459

Date ____________, 20______

Pay to the order of ______________________________ $

______________________________ Dollars

Bank of America.

Sample only. Not negotiable.

MEMO____________

⑆011000010⑆ 09876543210⑈ 8461

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READING 16.1

About Checking Accounts

A checking account provides certain benefits:

- ▲ It is safer than carrying or mailing cash.
- ▲ It makes day-to-day money transactions easier to handle.
- ▲ It can be less expensive than using money orders or check-cashing services.
- ▲ It provides a good record of purchases or expenditures. Paid checks serve as proof of payment. Monthly statements track where money was spent.
- ▲ It helps people establish a good financial record with a financial institution.

Checking accounts come with certain features and costs. Be sure to ask the following questions:

- ▲ Does the account pay interest? If so, what balance is required to earn interest?
- ▲ Are there monthly service charges and/or per-check charges?
- ▲ What are the fees for such items as: printed checks, use of the ATM, overdrafts (check written without sufficient funds in account), stop payment (request by a depositor for the bank not to pay a check that he or she has written)?
- ▲ Is there a "free checking" account? What are the requirements for such an account?

If you open a checking account, you take on certain responsibilities. It is your responsibility to:

- ▲ Protect your checkbook and ATM card to guard against theft.
- ▲ Write checks correctly to prevent tampering or forgery.
- ▲ Keep a running total and balance your account monthly to avoid overdrafts.

READING
16.2

Opening a Checking Account

1 **Choose a financial institution offering a checking account that fits your needs.** Financial institutions vary in the types of checking accounts that they offer. Choose a financial institution that offers a checking account that you believe is best for you and is convenient for you to use.

2 **Take identification to the bank officer handling new accounts.** Make sure to take a copy of your driver's license, an official state identification card, or a birth certificate, as well as your Social Security number. If it is to be a joint account, bring information for the second person as well. A joint account will give the other individual equal access to the money in the account. Financial institutions usually require a parent or other adult to be named on the account (joint account) if you are under 18 years.

3 **Provide the bank officer with information, including:**

▲ Current address and phone number. This is so the bank knows where to send your monthly statement and how to reach you if there are questions.

△ Social Security number, mother's maiden name, and your birthplace. This provides the bank with information that only you know, so that you are protected in case someone tries to use, or seek information about, your account.

4 **Complete a signature card.** The bank will keep this card as a sample of your signature(s) to protect against unauthorized individuals using your account. If you select an interest-bearing account, you will be asked to sign a W-9 Form, which will allow the bank to pay interest without withholding tax.

5 **Make an opening deposit.** You will need to deposit at least the minimum amount required by that financial institution.

6 **Read and review the disclosures that the bank officer will give you.** These are important materials that cover such areas as how interest is paid on an interest-bearing account, how to order checks, how to set up and use an ATM card, and other rules about the account.

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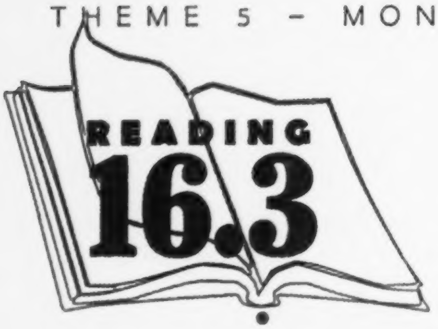


Ten Tips for ATM Safety

1 **Stay alert.** Be aware of your surroundings when you use an ATM, especially at night. It's best to only use an ATM in a well-lighted area and have someone accompany you.

2 **Report suspicious activity.** If you notice anything unusual, cancel your transaction, pocket your card, and leave immediately. Go to a safe place and call the police if you suspect dangerous or illegal activity.

3 **Be prepared.** To complete your transaction safely, fill out your account deposit forms and have your card ready before arriving at the ATM. When you've completed your transaction, pocket your card, receipt, and cash immediately. It is unwise to openly count cash in front of others.

4 **Take special precautions at drive-up ATMs.** When using a drive-up ATM, remember always to keep your doors locked, all other windows rolled up, and the car running.

5 **Treat your ATM card like cash.** Guard your ATM card as carefully as you do cash, checks, and credit cards. Never give account numbers, card information, or your PIN over the phone.

6 **Keep your personal identification number (PIN) secret.** Don't write your PIN on your card or keep it in your wallet. Memorize your number and do not tell anyone what it is—even family members and bank employees.

7 **Be courteous while waiting at an ATM.** Keep a polite distance from the person using the ATM before you. Allow that person to complete the transaction before you approach the machine.

8 **Protect your privacy.** Be mindful of others waiting behind you. Position yourself in front of the ATM keyboard to prevent someone from observing your PIN.

9 **Save your ATM receipts.** Remember to record each transaction in your checkbook register and match it to your monthly statement. Do not leave receipts at the ATM; they may contain confidential information.

10 **Report a lost or stolen card immediately.** Call the bank as soon as you realize your card has been lost or stolen, so the bank can cancel your lost card and begin the process of issuing you a new card. The telephone number to call is usually listed on your statement.

ASSESSMENT

What's Great About Our Checking Accounts?

As the new public relations manager for a local bank, you've been asked to develop an advertisement stating the virtues of your bank and the checking accounts it offers. Contact a local bank, savings and loan, or credit union by phone or online to gather information on the available checking accounts. Be sure to include strengths of the financial institution, such as location and banking hours, and the specific features of the accounts. Use the following list of features and costs to develop your advertisement.

Checking Account Features and Costs:

- Monthly fees
- Minimum balance needed to avoid paying a monthly fee
- Per-check charges
- Penalty fees for overdrafts
- ATM charges
- Stop-payment fees
- Charges for printed checks
- Availability of overdraft protection
- Interest rates on interest-bearing accounts

LESSON 17

What Taxes Affect You?

Warm-Up

Everybody likes to drive on smooth roads and enjoy the beauty of national parks. Everybody wants good schools, safe neighborhoods, and clean streets. Everybody would like to enjoy these benefits, but who pays for them?

You have already learned that every benefit has a cost. The cost for highway construction and forest maintenance or for police and fire protection is great. Where does the money come from to pay for the resources necessary to maintain beauty and safety in your city, your state, or the whole U.S.A.?

If you answered *taxes*, you're correct. Different kinds of taxes are used to fund the projects that citizens want. For example:

- ▲ Property (real estate) taxes help pay for local schools.
- ▲ Federal income taxes are used to fund our national defense program.
- ▲ State income taxes go toward parks and social services.
- ▲ Local sales taxes pay for the upkeep of libraries.
- ▲ Toll-road fees are a tax too; they are used to maintain highways.

MUSCLE DEVELOPERS

Learn these ideas, practice them, and develop your financial fitness muscles.

- ✔ Taxes are used to provide services that benefit all citizens.
- ✔ There are several kinds of taxes: income, sales, property.
- ✔ Most consumers in the United States pay taxes on goods and services they buy—telephone service, gas for the car, clothing, toys and a fast-food meal.
- ✔ Most workers in the United State have to pay income taxes.
- ✔ Income taxes, social security taxes, retirement account contributions, and other deductions are subtracted regularly from a worker's paycheck.
- ✔ Every year, by April 15th, most people must complete a federal income tax form that lists their income and the amount of tax that they owe.
- ✔ Income taxes are calculated as a percent of a worker's income; people who earn more income usually pay a higher percentage than those who earn less income.

FITNESS VOCABULARY

Gross pay – Total wages for total hours worked.

Net pay – Amount of wages received after all deductions have been taken into account.

Take-home pay – Same as net pay.

Payroll deduction – Amount of money automatically subtracted from gross pay for taxes, insurance, retirement benefits, etc.

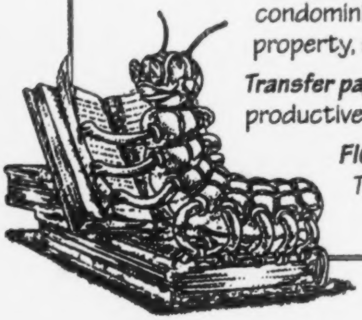
IRS – Internal Revenue Service; the agency that collects federal income taxes.

Income tax – A tax on earnings; every worker who earns a certain amount must pay federal income taxes. (Some states and cities also have their own income taxes.)

Real estate property tax – A tax paid by people who own homes, business properties, condominiums, or other real estate. Property tax may also be charged on personal property, such as boats or cars.

Transfer payments – Payments by government to people who do not currently perform productive services.

FICA – Federal Insurance Contributions Act (more commonly called *social security*). This is a transfer tax because it transfers money from people who are working to those who no longer work.



Showing Your Strength

If you know the answers to these questions, you are developing some financial muscle.

1 **Does everyone have to pay income tax?** *(No. A person who earns below a certain amount pays no income tax. Also, persons who have many deductions and exemptions may pay little or no income tax.)*

2 **How are income taxes calculated?** *(The IRS [Internal Revenue Service] has rules for how much income tax a person owes. This amount is based on the amount of money you earn in one year. The higher your income, the higher the percentage of income tax you will have to pay.)*

3 **Why are income taxes deducted from paychecks all year long?** *(The government needs money every day to provide services. By deducting taxes regularly, it collects operating income as the year progresses. Also, some people might not plan ahead and save the money they would need to pay their taxes on April 15th. Regular tax deductions act as a forced saving plan to pay taxes.)*

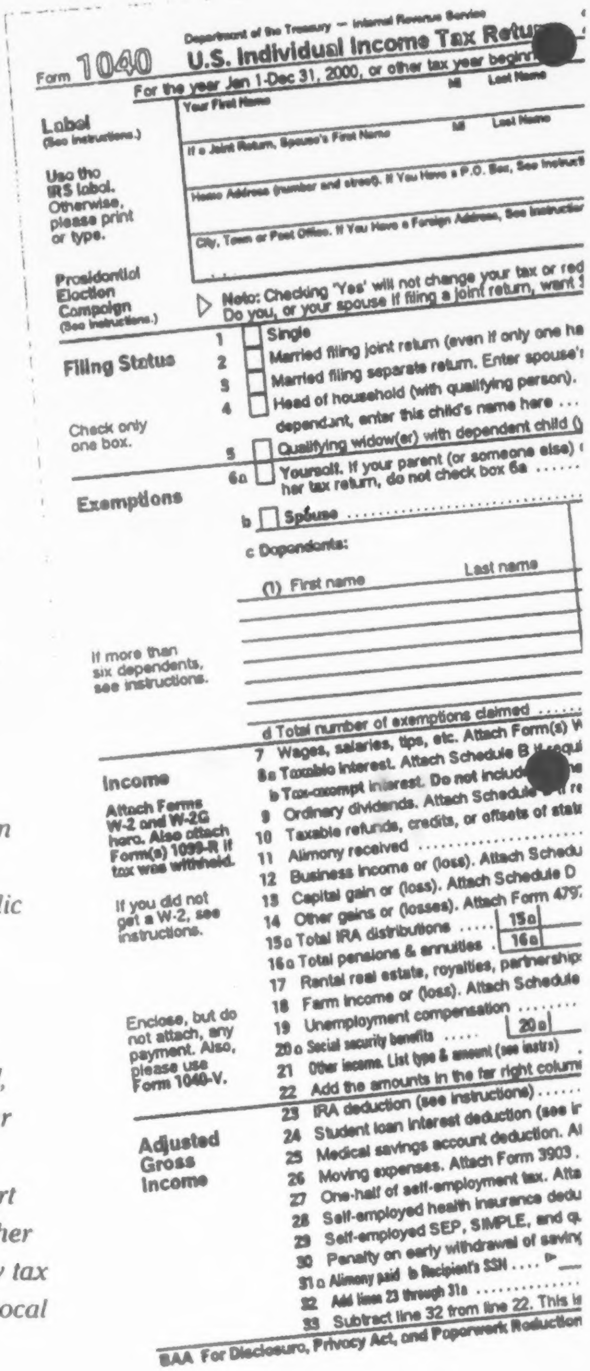
4 **Who receives social security benefits?** *(Retired persons are eligible for social security benefits if they have worked long enough. There are also benefits for people who are disabled and can't work, and for families in which a parent has died.)*

5 **Who pays social security taxes?** *(Nearly all workers pay social security taxes as well as the employers for whom they work.)*

6 **What is a sales tax?** *(A sales tax is a consumption tax. It is paid at the time a product is purchased. Usually the sales tax is a percentage of the price of a product. A sales tax is set by individual states and cities.)*

7 **What are transfer payments?** *(The government makes transfer payments to people who do not currently perform productive services. Social security, unemployment compensation, and public assistance are examples of transfer payments.)*

8 **What is a real estate property tax?** *(Property taxes are assessed, or levied, on homes, business properties, or other real estate by a state, county, or city. Property taxes are often used to support public schools, libraries, parks, and other public institutions. Real estate property tax is an important source of revenue for local governments.)*



Department of the Treasury — Internal Revenue Service

Form **1040** **U.S. Individual Income Tax Retu**

For the year Jan 1-Dec 31, 2000, or other tax year beginn

Label (See instructions.)

Use the IRS label. Otherwise, please print or type.

Your First Name | MI | Last Name

If a Joint Return, Spouse's First Name | MI | Last Name

Home Address (number and street). If You Have a P.O. Box, See Instructi

City, Town or Post Office. If You Have a Foreign Address, See Instructio

Presidential Election Campaign (See instructions.)

▷ Note: Checking 'Yes' will not change your tax or red
Do you, or your spouse if filing a joint return, want $

Filing Status

Check only one box.

1 ☐ Single
2 ☐ Married filing joint return (even if only one ha
3 ☐ Married filing separate return. Enter spouse's
4 ☐ Head of household (with qualifying person). dependent, enter this child's name here ...
5 ☐ Qualifying widow(er) with dependent child (

Exemptions

6a ☐ Yourself. If your parent (or someone else) her tax return, do not check box 6a ......
b ☐ Spouse ....
c Dependents:
(1) First name | Last name

If more than six dependents, see instructions.

d Total number of exemptions claimed ......

Income

Attach Forms W-2 and W-2G here. Also attach Form(s) 1099-R if tax was withheld.

If you did not get a W-2, see instructions.

Enclose, but do not attach, any payment. Also, please use Form 1040-V.

7 Wages, salaries, tips, etc. Attach Form(s) W
8a Taxable interest. Attach Schedule B if requi
b Tax-exempt interest. Do not includ
9 Ordinary dividends. Attach Schedule
10 Taxable refunds, credits, or offsets of stat
11 Alimony received ....
12 Business income or (loss). Attach Schedu
13 Capital gain or (loss). Attach Schedule D
14 Other gains or (losses). Attach Form 479
15a Total IRA distributions 15a
16a Total pensions & annuities . 16a
17 Rental real estate, royalties, partnership
18 Farm income or (loss). Attach Schedule
19 Unemployment compensation ....
20a Social security benefits 20a
21 Other income. List type & amount (see instrs)
22 Add the amounts in the far right colum

Adjusted Gross Income

23 IRA deduction (see instructions) ......
24 Student loan interest deduction (see ir
25 Medical savings account deduction. At
26 Moving expenses. Attach Form 3903 .
27 One-half of self-employment tax. Atta
28 Self-employed health insurance dedu
29 Self-employed SEP, SIMPLE, and q
30 Penalty on early withdrawal of saving
31a Alimony paid b Recipient's SSN .... ▷
32 Add lines 23 through 31a ....
33 Subtract line 32 from line 22. This is

BAA For Disclosure, Privacy Act, and Paperwork Reduction

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HARDWARE
COMPANY

READING 17.1

Is This a Road or a Parking Lot?

Tony's family owned a hardware store in town. The store was established nearly 75 years ago by Tony's great-grandparents. As a child, Tony would visit his great-grandparents who lived in an apartment above the store. For his great-grandparents, it was a convenient place to live; they could simply walk down the stairs to get to work each morning.

Tony's grandparents worked in the hardware store too. They lived in a house several blocks away from the store. They would drive about five minutes through side streets to arrive at work. This was not the case for Tony's mom. Tony's dad wanted to live in a more country-like setting, so his parents bought a small farm far outside the town. They bought their farmhouse quite a few years before Tony was born. He couldn't imagine living anywhere else. For years, Tony's mom drove to and from the hardware store with very little trouble. It took about 20 minutes for the drive.

Five years ago, however, everything changed. Two large businesses were invited to town. These businesses promised to provide more than 3,000 jobs. They kept that promise, and then some. Now the town is bustling with thousands of cars on the roads, and new houses are going up everywhere, even all around Tony's family's farm. Everyone in the town, including Tony's family, agrees that the new businesses are the best thing that ever happened in the town. The stores are flourishing. There are plenty of kids to fill ball teams and the local youth clubs, and Tony's class is bursting with more than 80 students. Tony can't even count all of his friends.

However, there is a downside. Tony's mom drives on the same roads she has for 20 years, but the drive that once took only 20 minutes now takes, at least, 40 minutes. The townspeople are desperate for a new highway to go around the town. No private company would be willing to build a highway because it wouldn't be profitable. How could they charge each driver entering the road? They would have to set up tollbooths and allow very limited access to the road. In Tony's community, this just wouldn't be practical. Tony's mom and the rest of the drivers could go door to door asking residents to contribute voluntarily to a new road. They figure that plan wouldn't work, either. Some people wouldn't consider the road important, so they wouldn't contribute. That would leave the cost to be funded to those who wanted the road.

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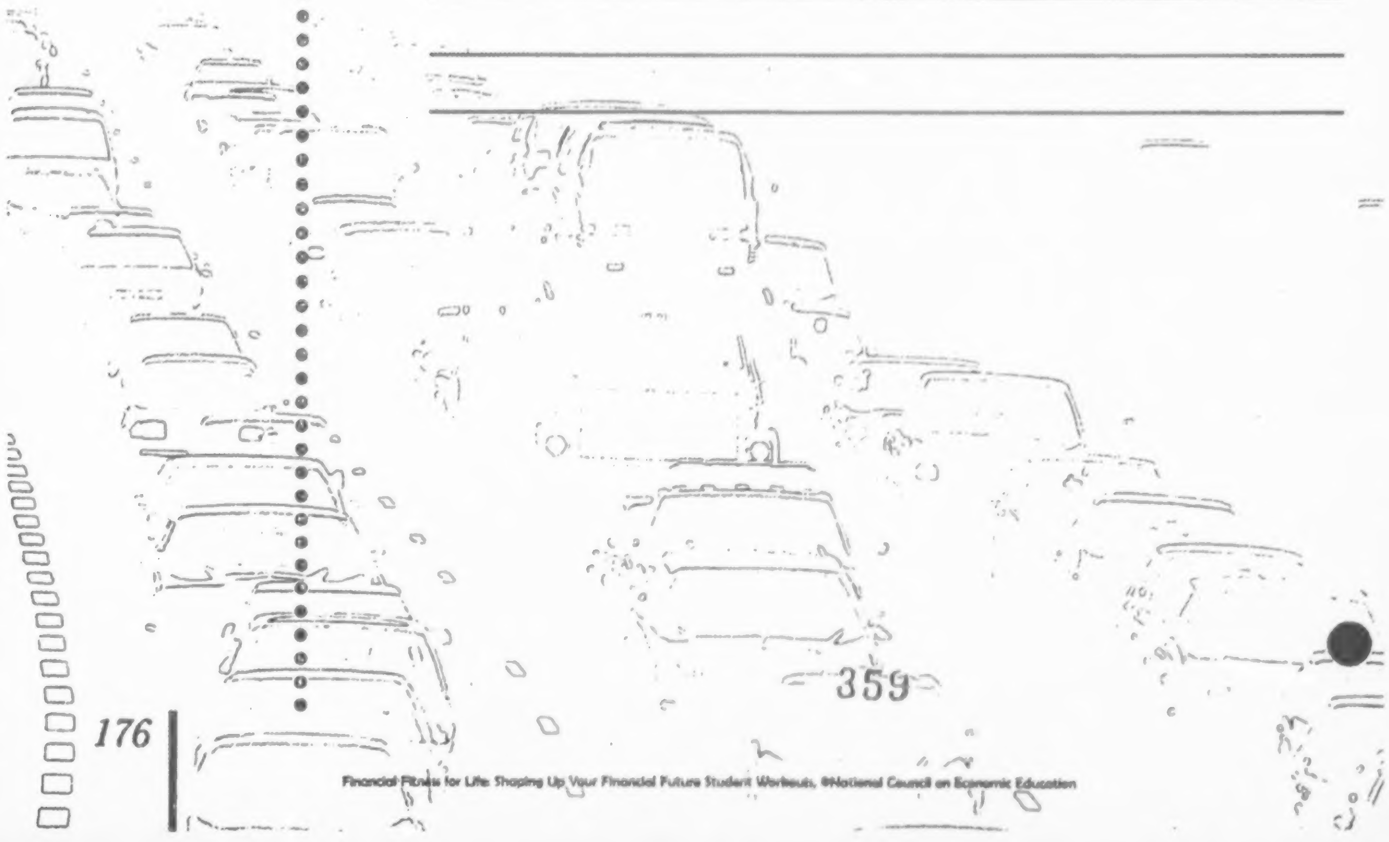
Would private funding of the road be fair, considering that many people would use the road even if they did not contribute?

How will the townspeople get this badly needed road?

How does your community get new roads constructed?



ASSESSMENT

Where Did the Money Go?

Study the paycheck stub to answer the questions that follow:

Employee name:	John Taxpayer
Employee Social Security Number:	123-45-6789
Pay period Ending:	12-31-02
Total wages:	$2,823.08
Federal Tax Withheld (based on exemptions claimed on Form W-4):	541.73
State Taxes:	115.00
Local Taxes:	25.00
Social Security Tax and Medicare Tax Withheld (FICA):	210.00
Total deductions from paycheck:	$892.34
Net Pay (the amount of your paycheck):	$1,930.74

1 What do you report on a Form W-4?

____

2 For what purposes are state taxes collected?

____

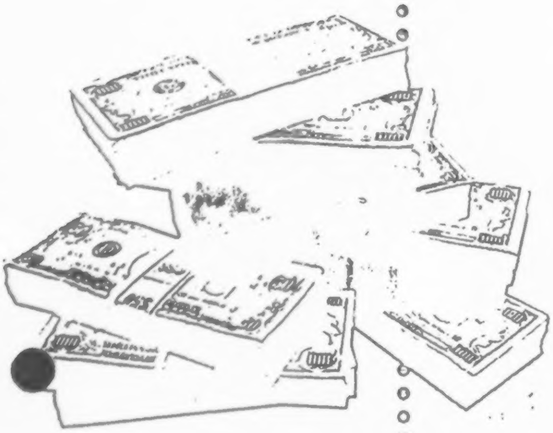
3 For what purposes are federal taxes collected?

____

4 Are FICA and federal income tax used to pay for the same things? Explain. ____________________

____

____



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